Our Company, Our Community

2018
Annual
Report

Hysan 希慎

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Contents

In an effort to reduce consumption of resources due to printing and distributing hard copies, the Hysan Sustainability Report has been prepared for electronic distribution and is available for public viewing on Hysan Development's website (www.hysan.com.hk). Limited copies are printed and distributed, primarily to our shareholders.

A summary of the Sustainability Report is provided on pages 106 and 107 of this Annual Report.

Scan QR code to read the 2018 Sustainability Report

Hysan Development's roots can be traced back to the purchase of a hill along the north coast of Hong Kong Island by the founding Lee family in 1923. The ensuing 95 years have seen the transformation of Lee Gardens from genteel parklands to a vibrant lifestyle destination.

The theme of this report, Our Company, Our Community, is based on stories highlighted in our popular social media campaign, Hysan95. We celebrated our first 95 years with 95 stories which vividly showcased life in Causeway Bay. Lee Gardens is inextricably linked to Causeway Bay. We are determined to grow our home base into Hong Kong's destination of distinction.

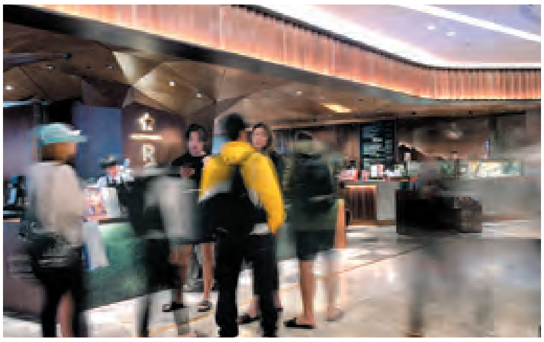
www.hysan95.com

Scan QR code to read the Hysan95 stories

Hysan in 2018

Lee Garden Three

- Officially opened in November 2018
- A catalyst to further enhance our commitment to lifestyle
- Brand new retail and food and beverage concepts add excitement to Lee Gardens
- Add strong office tenancies to Lee Gardens portfolio



Retail

- An enhanced tenant mix with the emphasis on lifestyle and children's offerings
- Strong tenant and third party partnerships through townhall meetings and glamorous events
- Unique experiences ranging from shopping mall activities to street festivals
- Key brand programmes supported by popular promotional campaigns
- Significant increase in loyalty programmes' membership and sales
- Roll out digital transformation with video-speed Wi-Fi, paperless e-coupons, interactive signage and e-directories

Reinforce connection between office and retail tenants

Office

- Diverse portfolio offering a range of space sizes at different price points
- Rich offerings of year-round and after-hours lifestyle and social facilities
- Banking and finance tenants now claim more than 20% of our office portfolio's floor space
- Range of co-working operators to complement existing tenant space requirements and attract a dynamic flow of new office users

“Office buildings with cutting edge technology and green credentials accompanying colourful retail offerings; a tight community fabric; a convenient transport network: all these make Lee Gardens a perfect office destination, where work and life are truly in harmony with each other.”

Mark Tung
Director, Lee Gardens Association

“We help run Hysan Place’s Urban Farm. The office workers really enjoy doing this farm work. You can see it in their faces – at the beginning they are a little stressed, but when harvest time comes, their expressions reflect deep satisfaction.”

Jessica Lau
Program Manager, SEED

RK

“For companies expecting rapid growth over the next few years, or international companies looking to instantly establish a footprint in Hong Kong, co-working is their perfect option. Causeway Bay and Lee Gardens’ vibrancy make the area a great place for co-working.”

Nancy Yip
Area Director, IWG

"It's noisy and busy, fun and yummy, charming and diverse. Causeway Bay and Lee Gardens is a go-to destination for anything and everything. If you want something, you can pretty much find it here."

Grace Lam
Fashion Director/Stylist/Creative Consultant

"People live all over Hong Kong and there are only a few areas where it just makes sense for people to meet up. Causeway Bay is one of them, and Lee Gardens is right in the middle of it all."

James Robertson
Founder of El Grande Concepts

"It's by far the most energetic spot on Hong Kong Island. It is, and always has been, a hotbed for youth culture, eclectic dining experiences and the best shopping finds. Causeway Bay is also where it all began for us – it's where we met as teenagers. We got married in 2014."

Paul and Jocelyn
Lovebirds of Causeway Bay

"My roots are in this neighbourhood. I have hairy crab customers who have come here for three generations."

Sandy Ki
Owner, Old San Yang
Member of Lee Gardens Association

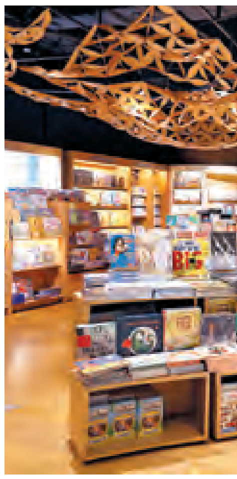
"The Sevens has been around for 43 years now and it has become ingrained in Hong Kong's culture in a way that hasn't happened elsewhere. Over the last few years we've focused on growing the event outside the stadium. We want to create a whole Hong Kong Sevens festival, and the carnival at Lee Gardens plays a big part."

Sam Pinder
General Manager, Hong Kong Sevens

PL

"The people who train here are really interesting. There are Lee Gardens area office workers, of course, but we also have a lot of local residents from here or Happy Valley. It's a great mix of people, which helps create that feeling of being part of a family."

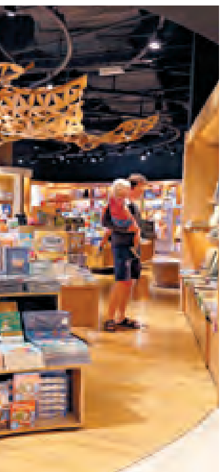
Jimmy Leung
Martial artist and Founder,
THE FIGHTERS CLUB



"The Arts in the Park Night Parade is a magical experience as all the puppets and costumes are illuminated. I remember the first time, tears streamed down my face as we walked, it was very emotional. We had squillions of people outside Lee Gardens and the surrounding areas all eager to share in our creativity."

Lindsey McAlister
Founder, Hong Kong Youth Arts Foundation

AY



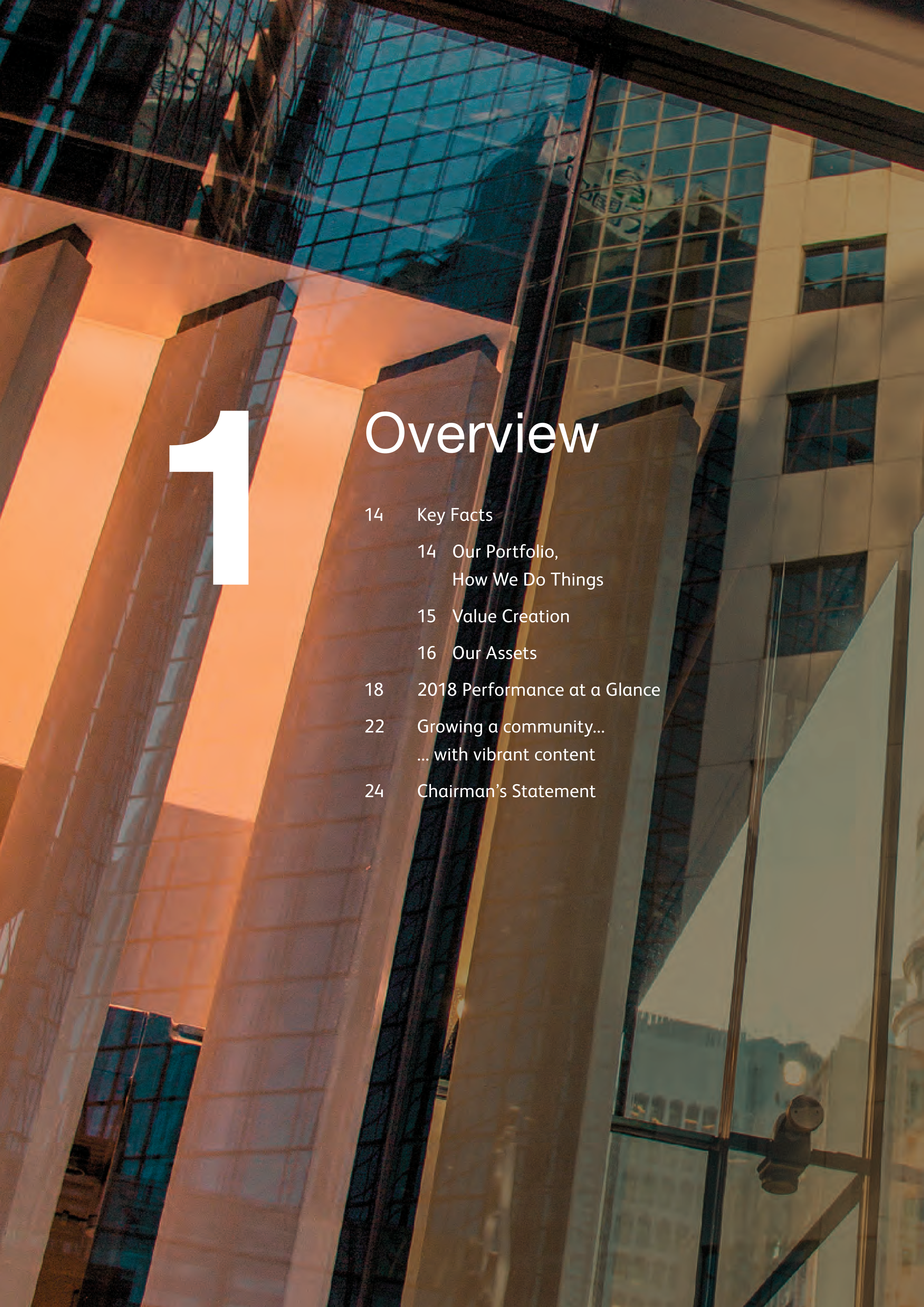
"People come here wanting to experience the atmosphere, or to initiate children into the world of reading. We want to offer respite for people, so that their mind and body can relax."

Lynn Chang
Company Director, eslite

THE COMMUNITY

The area's people are its greatest assets. Hysan has an important role to play, too. We will continue to inject more elements into this community to stimulate stakeholders' interactions,

and to knit the new and the old into a community tapestry of rich contrast and diversity.



1 Overview

Key Facts

Our Portfolio

Hysan's investment portfolio is set predominantly in Lee Gardens, a unique part of Hong Kong's renowned commercial heart in Causeway Bay. Our ownership concentration makes us stand out, as it magnifies our ability to create synergies from different tenants within our remarkable community.

Within our approximately 4.5 million square feet of retail, office and residential tenant space, including the recently opened Lee Garden Three, we strive to become close partners with our tenants. By understanding and connecting our tenants' and our customers' needs, we create a sustainable community.

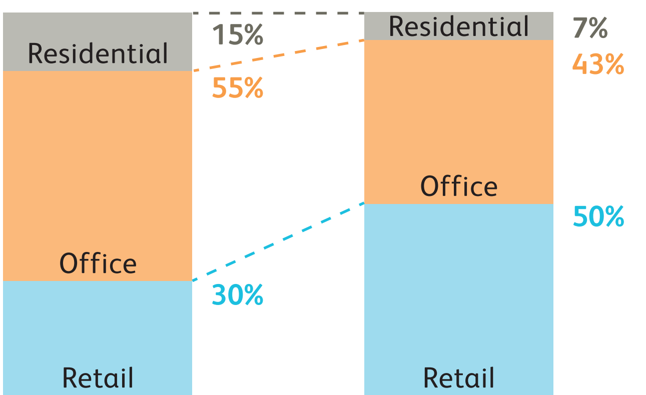
Overall

Investment Properties
(by Gross Floor Area)

Total Gross Floor Area
4.5 million sq. ft. (approx.)

Investment Properties
(by Turnover Contribution)

Turnover
HK$3,890 million



How We Do Things

VISION

To be the PREMIER property company in its market of choice.

MISSION

Provide our stakeholders with sustainable and outstanding returns from a property portfolio which is strategically planned and managed by passionate, responsible and forward-looking professionals.

VALUES

- **L**EADERSHIP
- **E**XCELLENCE
- **E**MPOWERMENT
- **G**OOD CITIZENSHIP
- **A**CCOUNTABILITY
- **R**ESPECT
- **D**RIVING/DRIVEN
- **E**NTREPRENEURSHIP
- **N**ETWORKING
- **S**USTAINABILITY

Value Creation

Financial Achievements:

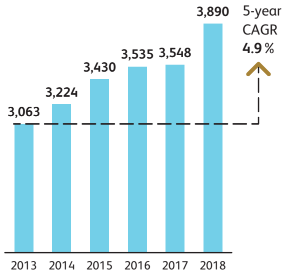
- Steady and progressive total return
- Strong Balance Sheet

Increase Yields

through active management including tenant mix improvement

Turnover

2013-2018 (HK$ million)

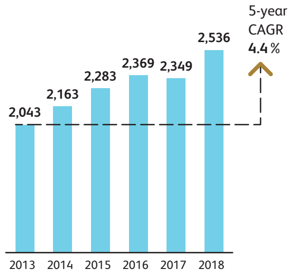


Financial Achievements

increase earnings

Recurring Underlying Profit

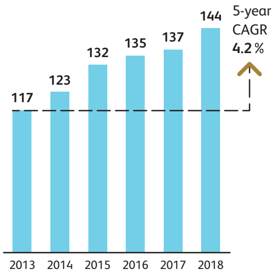
2013-2018 (HK$ million)



Dividends per Share

provide steady growth

2013-2018 (HK cents)



Asset Enhancement

balance longer-term projects with those that produce more immediate returns

Supported by Strong Underlying Non-Financial Achievements:

Environment

Minimise our impact on the environment, and achieve higher efficiency at the same time

Employees

Create working environment for talent to thrive

Community

Make positive contributions to communities where we operate

Governance

Strong governance is the heart of long-term sustainable performance

Our Assets

Retail and Office

Retail only

Residential

Bamboo Grove

74–86 Kennedy Road, Mid-Levels
Completed 1985 / Renovated 2002

Approx. Gross Floor Area 691,000 ft²

Number of Units 345 Parking Spaces 436

Quality international living in Mid-Levels

Lee Theatre Plaza

99 Percival Street, Causeway Bay
Completed 1994 /
Lower zone renovated 2013

Approx. Gross Floor Area 314,000 ft²

Number of Floors 26

One of Hong Kong's best-loved shopping and dining complexes

One Hysan Avenue

1 Hysan Avenue, Causeway Bay
Completed 1976 / Renovated 2011

Approx. Gross Floor Area 169,000 ft²

Number of Floors 26

Efficient office and retail building in prime site

Lee Garden Two

28 Yun Ping Road, Causeway Bay
Completed 1992 /
Retail podium renovated 2003

Approx. Gross Floor Area 621,000 ft² *

Number of Floors 34 Parking Spaces 167

Spacious offices and home to children's concept floors

Leighton Centre

77 Leighton Road, Causeway Bay
Completed 1977 / Renovated 2011

Approx. Gross Floor Area 430,000 ft²

Number of Floors 28 Parking Spaces 321

Popular office complex amongst sports and lifestyle shops

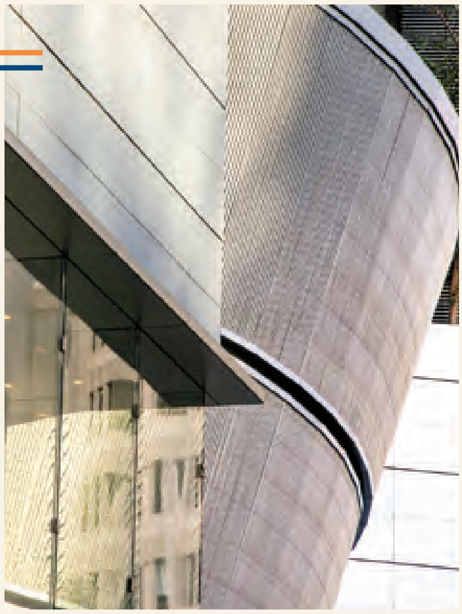
Lee Garden Five

18 Hysan Avenue, Causeway Bay
Completed 1989 / Renovated 2009

Approx. Gross Floor Area 132,000 ft²

Number of Floors 25

An office and retail complex at one of Hong Kong's most prestigious commercial areas

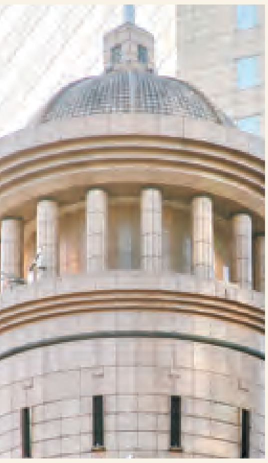


Hysan Place

500 Hennessy Road, Causeway Bay
Completed 2012

Approx. Gross Floor Area 716,000 ft^2
Number of Floors 40
Parking Spaces 66

Greenest commercial building and trendiest shopping centre in town

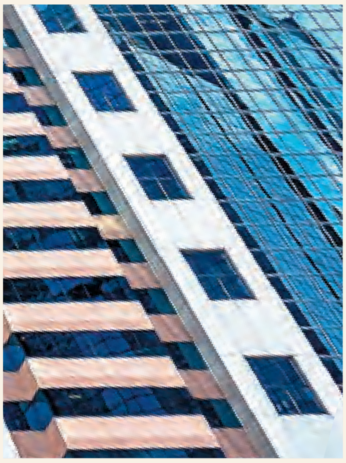


Lee Garden One

33 Hysan Avenue, Causeway Bay
Completed 1997

Approx. Gross Floor Area 903,000 ft^2
Number of Floors 53
Parking Spaces 200

Home to international corporations and premium brands



Lee Garden Three

1 Sunning Road, Causeway Bay
Completed 2017

Approx. Gross Floor Area 467,000 ft^2
Number of Floors 32
Parking Spaces 201

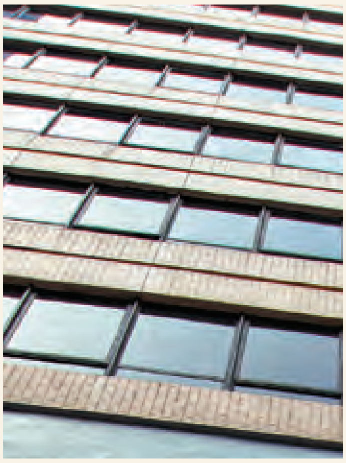
Brand new commercial address in Lee Gardens

Lee Garden Six

111 Leighton Road, Causeway Bay
Completed 1988 / Renovated 2004

Approx. Gross Floor Area 80,000 ft^2
Number of Floors 24

Convenient office and retail location



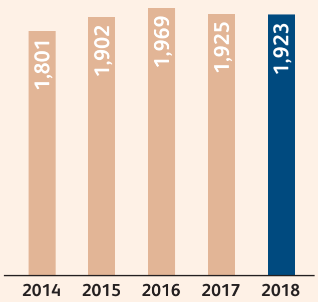
* The approximate Gross Floor Area of Lee Garden Two is revised upon the completion of asset enhancement works.

2018 Performance at a Glance

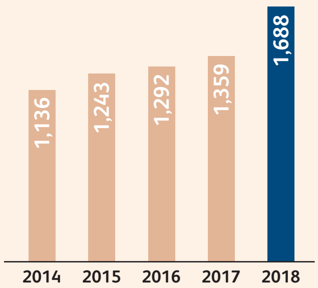
Financial Performance

Turnover HK$3,890m ↑9.6%

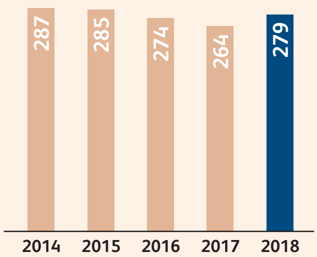
Retail Sector
HK$1,923m –



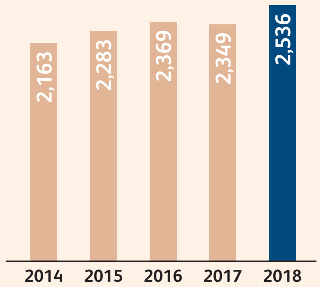
Office Sector
HK$1,688m ↑24.2%



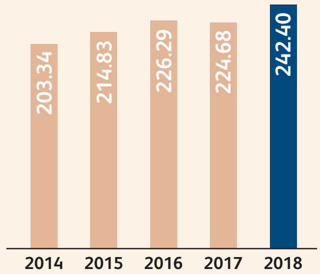
Residential Sector
HK$279m ↑5.7%



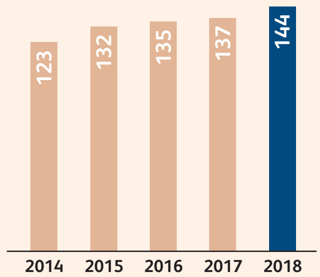
Recurring Underlying Profit HK$2,536m ↑8.0%



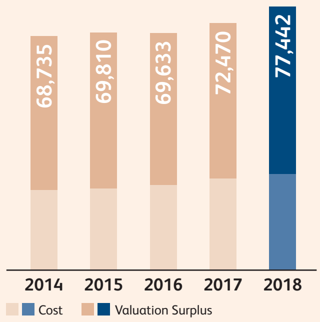
Recurring Underlying Earnings per Share HK242.40cents ↑7.9%



Dividends per Share HK144cents ↑5.1%



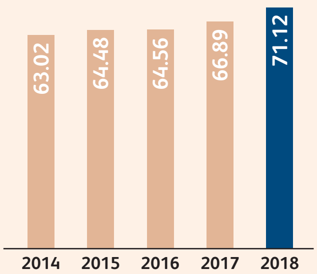
Property Value HK$77,442m ↑6.9%



Net Asset Value per Share

HK$71.12

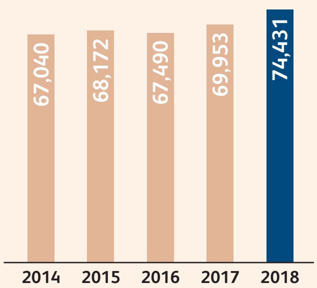
↑6.3%



Shareholders' Funds

HK$74,431m

↑6.4%



FINANCIAL PRUDENCE

Net Interest Coverage (Note 1)

18.1 times

(2017: 17.1 times)

Net Debt to Equity (Note 2)

4.7%

(As at 31 Dec 2017: 5.0 %)

Average Finance Cost

3.6%

(2017: 3.4 %)

Average Debt Maturity

3.9 years

(As at 31 Dec 2017: 4.3 years)

Fixed Rate Debt

75.5%

(As at 31 Dec 2017: 74.9 %)

Capital Market Issuances

75.5%

(As at 31 Dec 2017: 74.9 %)

Credit Ratings

Moody's: **A3**

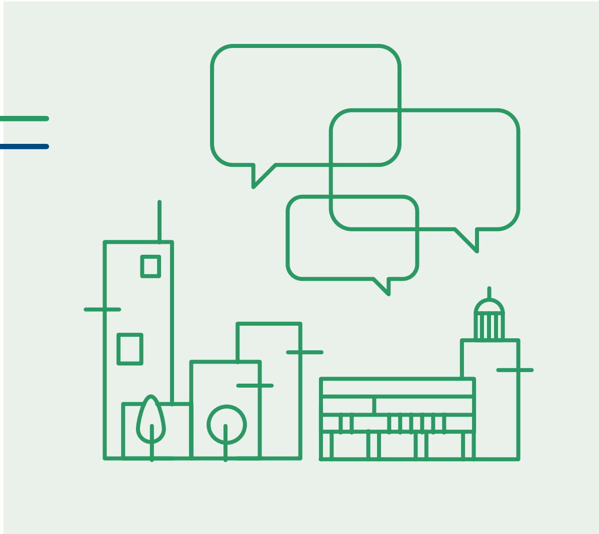
Standard and Poor's: **BBB+**

Fitch: **A-**

Notes:
1 Net Interest Coverage is defined as gross profit less administrative expenses before depreciation divided by net interest expenses
2 Net Debt to Equity is defined as borrowings less time deposits, cash and cash equivalents divided by shareholders' funds

2018 Performance at a Glance

Non-Financial Performance



© Photographed by Geoff Letchford

ENVIRONMENT

"AA"

- MSCI Global Sustainability Indexes: "AA" Rating

"AA"

- Hang Seng Corporate Sustainability Index: "AA" Rating

- Hysan Place attains Final Platinum rating under the BEAM Plus (Existing Buildings) certification scheme

- Lee Garden Three achieves China Green Building Label 2 Stars Rating

- Hysan develops its Green Finance Framework and places green bond

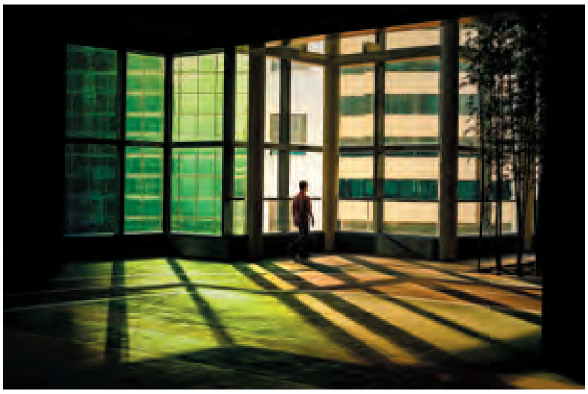
MSCI 2018 Constituent MSCI ESG Leaders Indexes

Hang Seng Corporate Sustainability Index Series Member 2018-2019

PLATINUM 鉑金級 HKGBC BEAM Plus 綠建環評

SOCIAL

- 2018 Constituent member of FTSE4GOOD Index
- Silver Award for Volunteer Service (Organisation) (in 2018) under the Steering Committee on Promotion of Volunteer Service of Social Welfare Department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GOVERNANCE

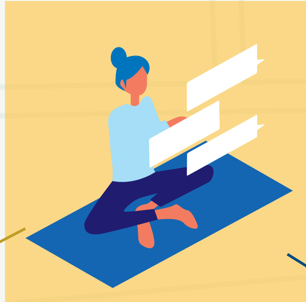
- Gold Award (Non-Hang Seng Index – Large Market Capitalisation Category) in the Hong Kong Institute of Certified Public Accountants' Best Corporate Governance Awards 2018
- Honourable Mention in The Hong Kong Management Association's 2018 HKMA Best Annual Reports Awards

FTSE4Good

Volunteer Movement

CPA Hong Kong Institute of Certified Public Accountants 香港會計師公會

Growing a community...



Multifaceted Retail

- Classic top-end brands alongside dynamically-curated trendy labels
- "New Classic" products and services for Millennials: lifestyle, health and wellness
- Wide choice of food and beverage
- Office tenants create new consumer demographics, which in turn influence our retail tenant mix

The composition of our retail portfolio's visitors is balanced between approximately

1/3 **tourists**

1/3 **long-time locals**

1/3 **"New Hong Kong residents"**
(who have settled here over the past decade or so)

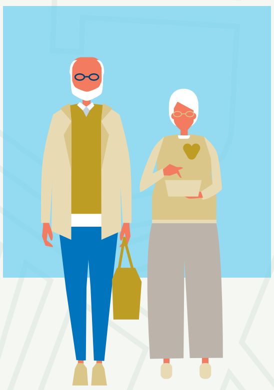
- Preferred retail destination for Multigenerational shoppers
- Popular loyalty programmes create customer "stickiness"

HYSAN PLACE

LEE THEATRE PLAZA

ONE HYSAN AVENUE

LEIGHTON CENTRE



Heritage and Modern

- Traditional businesses in surrounding areas mingle with trendy street shops
- Walk-up buildings revitalised in collaboration with local business association and neighbourhood owners

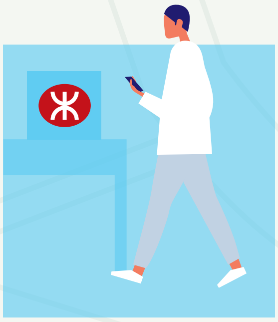
...with vibrant content

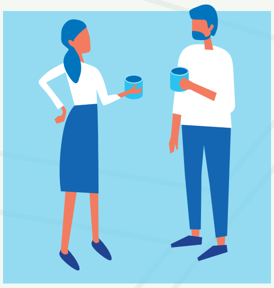
Easy Access

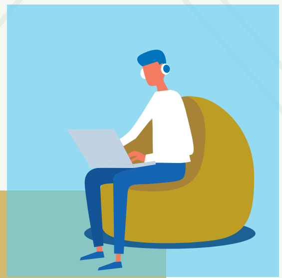
57,000+ people per hour from MTR's Island Line

20+ bus routes stop at Hysan Place

900+ parking spaces







LEE GARDEN ONE

LEE GARDEN TWO

LEE GARDEN FIVE

LEE GARDEN THREE

LEE GARDEN SIX

Quality Office Space

- Over 2.5m sq. ft. of quality office; 20,000 + workers with spending power
- Banking and Finance the largest tenant sector
- Co-working and flex space a growing trend

Digital Transformation

- Video-speed Wi-Fi
- Paperless e-coupons
- Enhanced digital signage and interactive directories
- Better use of IoT and analytics

Chairman's Statement

Lee Gardens is a community where people come

to work, live and play,

now and for generations to come.

The local economy experienced healthy expansion in 2018 with a year-on-year growth of 3.0%. Labour market conditions remained tight, but the residential property market and stock market were less bullish during the second half of the year. Visitor arrivals figures, meanwhile, continued their upward trend, with 11.4% growth in 2018, as compared to the year before (Mainland China visitors increased by 14.8%).

Hong Kong's retail sales saw robust growth of 13.4% in the first half of 2018, while the second half growth of just 4.3% mirrored the slow-down in overall economic growth. Full year 2018 Hong Kong retail sales grew 8.8%. All categories rose when compared to 2017, with Jewellery and Watches, as well as Medicines and Cosmetics among the best performers.

2018 was a productive year for Hysan. Footfall in our portfolio saw improvement and our estimated tenant sales growth outperformed Hong Kong's general retail sales growth. Office rental reversion was robust and occupancy improved. Nevertheless, market challenges persist, from macroeconomic issues to structural changes in tenants' and consumers' demands.

The Lee Gardens portfolio has many natural advantages: we have a rich and dynamically-curated retail and commercial portfolio set in a unique neighbourhood, which combines the latest high-rise with Hong Kong heritage buildings, enhanced by strong physical, visual and virtual connectivity. These natural attributes, together with our public events, have enabled us to create a strong sense of community.

Hysan's Progress in 2018

The market challenges we faced in 2018 were not dissimilar to the year before. There were added factors including the macro issues of interest rate hikes, as well as Mainland China's economic slowdown and Renminbi (RMB) depreciation. These were compounded by the China-U.S. trade tensions.

Retail consumers demand experiential and digital offers. Demographic shifts saw "New Hong Kong residents" (those who have settled in Hong Kong in the past decade or so) become a strong and growing spending force. Moreover, generational changes have meant millennials and younger shoppers now seek "new classic" products and services that are personalised, sophisticated and aspirational. Health and wellness as well as lifestyle offerings are high on their agenda. For parents, quality children's items and experiences are highly coveted.

Unique, new and relevant retail offerings are key to attracting top quality office tenants. The demand for "flex" space by companies propelled an increased commitment to forge partnerships with some of the best-known co-working brands. We have constructed a balanced portfolio of co-work tenants to cater to different organisational requirements from multinational institutions to small startups. Lee Gardens portfolio is now home to co-working operators like Spaces, theDesk and Compass. They will soon be joined by another major operator, WeWork.

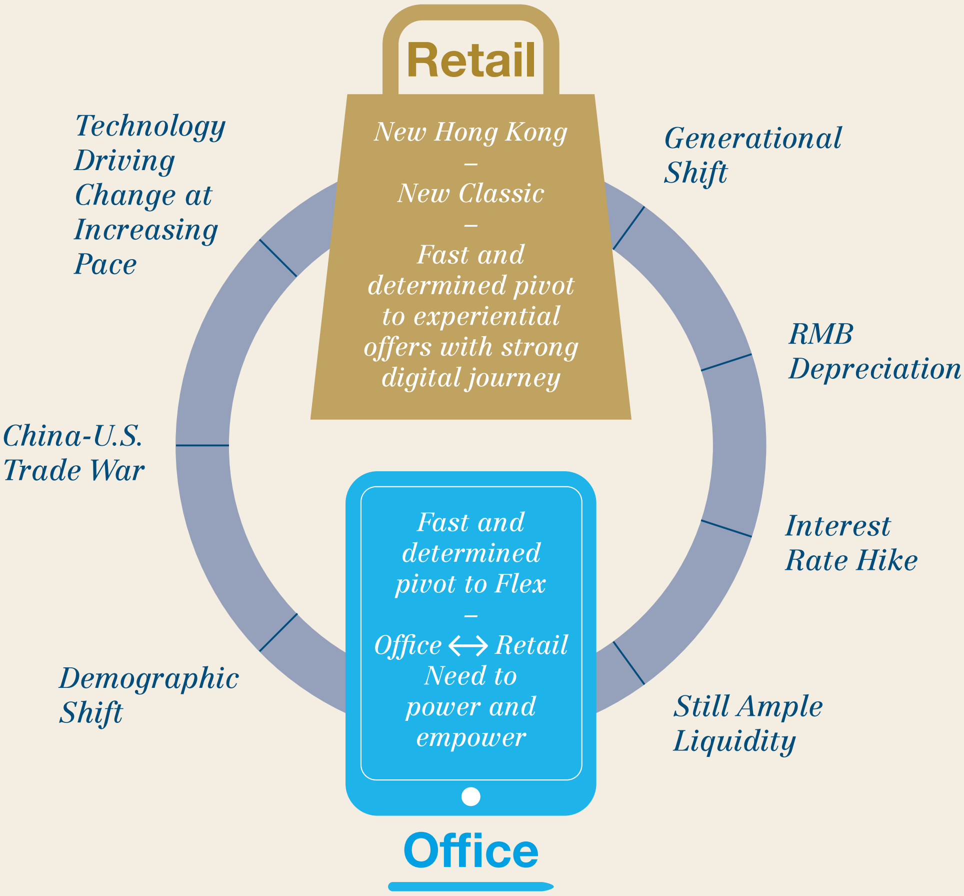
Apart from co-working, traditional Banking and Finance institutions have chosen Lee Gardens for its quality hardware as well as amenities, convenience and vibrant community, all of which are key to staff engagement. Lee Garden Three is now home to a number of top international financial institutions, including Goldman Sachs and Maybank.

Lee Garden Three, which officially opened in November 2018, is the perfect catalyst to extend our commitment to lifestyle. The building houses some very unique food and beverage destinations, along with a range of wellness and children's products that are priority items for this generation of consumers.

Our new office tenants in Lee Garden Three, together with a more fluid and diverse office user population from our co-work office tenants located throughout our portfolio, have created a new consumer demographic. This in turn has influenced our retail tenant recruitment strategy and mix. We analyse and curate our portfolio as a holistic offering that feeds on and influences footfall, spending power and the staying power of our consumers within the Lee Gardens neighbourhood. We have introduced new destination restaurants and more drinking elements, all of which have proven popular with our new office tenants. These newcomers are growing into loyal customers of our portfolio's offerings.

Our loyalty clubs, too, help enhance the spending and staying power of those who visit the portfolio. Lee Gardens Plus for general shoppers and Club Avenue for VIPs, are gaining considerable traction. Lee Gardens Plus saw its membership more than doubled over the year. Through multiple channels, including a powerful but simple to use app, we have created a platform to appeal to a wider audience. In the meantime, we have also enhanced our offerings and level of service to our VIPs through Club Avenue.

In regard to tenant partnership enhancement, the introduction of our regular town-hall meetings and our tenant engagement team have contributed significantly to further strengthen our relationships through tenant-centric win-win events and campaigns. During the year, we held a number of special exclusive events in partnership with tenants to attract high spenders. A close relationship also enabled the successful roll-out of Hysan's much anticipated paperless e-coupon project.



Hysan has implemented a range of measures to weather the uncertainties in the macro-environment, as well as to tackle the structural changes in the retail and office sectors.

The Lee Gardens area has always had an eclectic mix of different characteristics. In recent times, and especially in 2018, we have been knitting these elements together into a community tapestry of rich contrast and diversity. Cutting edge buildings stand alongside heritage low-rise; premium luxury brands rub shoulders with traditional businesses; multinational financial institutions share buildings with co-working spaces. We leverage and enhance our existing strength in children, health and wellness offerings. In addition, Hysan's role is to continuously inject new elements into this community to stimulate stakeholder interactions. The earthy scent of our Urban Farm harvest; the glittering giant puppets of the Night Parade; the stream of pop-up stores which surprise and delight shoppers; the heart-warming Hysan95 social media stories about Causeway Bay's past, present and the future: all these are woven together with our ever-strengthening digital offerings. Our area-wide high-speed Wi-Fi that beams from all our buildings across our entire portfolio; the easy-to-use and environmentally-friendly e-coupons and the forthcoming improved loyalty apps: these too are helping to enrich our community with the very latest technology.

The combined power of our diverse office tenant mix, improved retail offerings, robust marketing efforts, burgeoning loyalty clubs, ever-tightening partnerships with tenants, and rich community elements, is contributing to the improvement of the business environment for our retail tenants. The success of our tenants is reflected in satisfactory positive rental reversions in most cases, which in turn has given us the opportunity to take proactive and bold steps to continue to innovate and reposition our portfolio.

The founder of our Group, Mr. Lee Hysan bought East Point Hill 95 years ago and renamed it Lee Gardens. From the very beginning his vision was to build a place of entertainment and relaxation, so that families from all walks of life could come to spend the whole day and enjoy the offerings. We have not really deviated from his far-sighted ideals. We would like Lee Gardens to remain a unique and sustainable destination, a community where people would choose to work, live and play, now and for generations to come.

Business Performance

The Group's 2018 turnover was HK$3,890 million, up 9.6% from HK$3,548 million in 2017. Occupancies of our retail and office portfolio were 98% and 97% respectively at year-end 2018. Meanwhile, the occupancy of our residential portfolio improved to 88%.

Recurring Underlying Profit, the key measurement of our core leasing business performance, was up 8.0% to HK$2,536 million (2017: HK$2,349 million). Our Underlying Profit in 2018, was also HK$2,536 million, up by 8% from 2017 on a normalised basis after excluding the one-off compensation received from a retail tenant in 2017. Basic earnings per share based on Recurring Underlying Profit and Underlying Profit correspondingly rose to HK242.40 cents (2017: HK224.68 cents and HK238.26 cents respectively), up 7.9% and 1.7% respectively.

The Group's Reported Profit for 2018 was HK$6,033 million (2017: HK$3,636 million). This mainly reflected a fair value gain of HK$3,532 million (2017: HK$853 million) on the Group's investment properties' valuation. As at year-end 2018, the valuation of the Group's investment property portfolio increased by 6.9% to HK$77,442 million (2017: HK$72,470 million). This reflected a combination of factors: a generally positive rental outlook for our core portfolio, and a number of asset enhancement works completed. The capitalisation rates used in valuing each portfolio remained unchanged from those used as at 31 December 2017.

Shareholders' Funds increased by 6.4% to HK$74,431 million (2017: HK$69,953 million), principally reflecting the valuation change of the investment properties.

Our financial position remained strong, with net interest coverage of 18.1 times (2017: 17.1 times) and net debt to equity ratio of 4.7% (2017: 5.0%).

Dividends

The Board of Directors (the "Board") is pleased to declare a second interim dividend of HK117 cents per share (2017: HK111 cents). Together with the first interim dividend of HK27 cents per share (2017: HK26 cents), the total distribution is HK144 cents per share (2017: HK137 cents), representing a year-on-year increase of 5.1%. The dividend will be payable in cash.

Appreciation and Outlook

I would like to use this opportunity to welcome our new Independent Non-Executive Director Wong Ching Ying Belinda. Belinda is the Chief Executive Officer of Starbucks China and has extensive experience leading different organisations in the Asia Pacific region. I trust Belinda will bring her strong professional expertise to further strengthen the Board. I would like to thank the management team for all their hard work in 2018, and also to offer a big thank you to my fellow directors for their support and advice throughout the year.

Hong Kong's economic growth slowed considerably in the second half of 2018. Waning confidence in both the property and equity markets will be further affected by anticipated headwinds from macro issues in 2019. These include the structural slowdown in China and the trade war between China and the United States.

Hysan has implemented a range of measures to weather the uncertainties in the macro-environment, as well as to tackle the structural changes in the retail and office sectors. Lee Garden Three's completion has added greater impetus to the changes in both sectors of our commercial portfolio. We have a comprehensive plan to continue to curate the Lee Gardens community with the support of our neighbourhood stakeholders. We look forward to another successful year ahead.

Lee Irene Yun-Lien
Chairman

Hong Kong, 21 February 2019

2 Business Performance

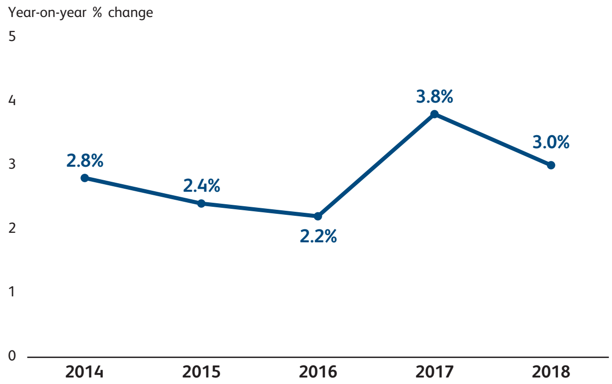

THREE

The Marketplace

Hong Kong Economy

The Hong Kong economy grew 3.0% in 2018. With 4.1% growth recorded in the first half of the year, growth slowed to 2.8% and 1.3% in the third and fourth quarter of the year respectively. This was mainly due to the deteriorating global environment stimulated by the China-US trade war during the latter half of the year, which also impacted other key economic statistics. Imports and exports of goods both showed a marginal drop during the fourth quarter following positive growth in previous quarters, with a full year increase of 4.9% and 3.5% respectively. Exports of services grew by 4.9%, which was mainly due to the increase in visitor arrivals. Investment expenditure grew moderately by 2.2%, slowed by dampened sentiment during the last quarter of the year. Private consumption expenditure increased by 5.6%, which was supported by a favourable employment market.

Real Gross Domestic Product Growth*



* In chained (2016) dollars

Source: Census and Statistics Department (data as of February 2019)

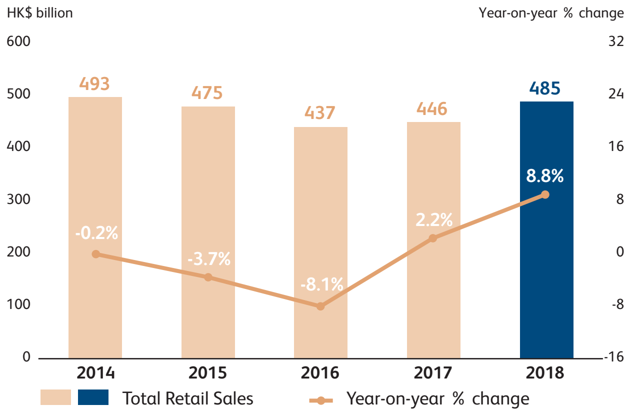
Retail

Following the rebound in the Hong Kong retail market in 2017, consumer sentiment continued to be positive. This benefitted the retail sales market in the first half of 2018, with growth of 13.4% being recorded in Hong Kong retail sales versus the same period in 2017. However, due to various adverse factors such as the China-US trade war, RMB depreciation as well as the interest rate hike, growth in Hong Kong retail sales during the second half of 2018 slowed to 4.3% when compared to the same period in 2017. The overall growth in Hong Kong retail sales was 8.8%.

During the year, the number of visitor arrivals grew by 11.4%. Since the new infrastructure linking Hong Kong to Mainland China became operational, the number of visitors from the Mainland soared by 14.8%. These visitors were one of the core factors in the overall retail sales growth. Local consumers also contributed to the retail market upturn, as is shown by the increase in private consumption expenditure.

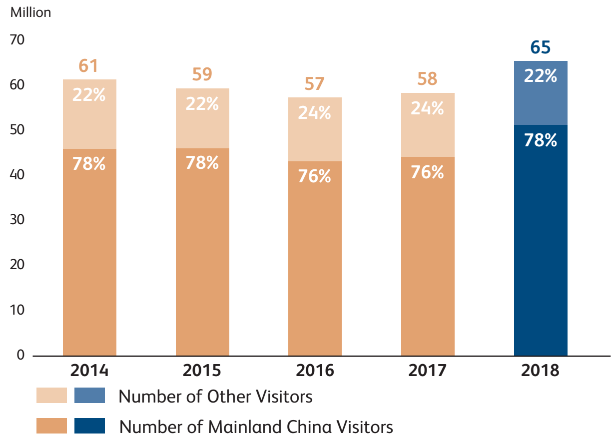
The growth in Hong Kong retail sales extended to most trade categories. However, some categories recorded better year-on-year growth than others; for example, jewellery, watches and clocks and valuable gifts (up 13.7%), commodities in department stores (up 9.6%), and medicines and cosmetics (up 14.3%).

Hong Kong Total Retail Sales



Source: Census and Statistics Department (data as of January 2019)

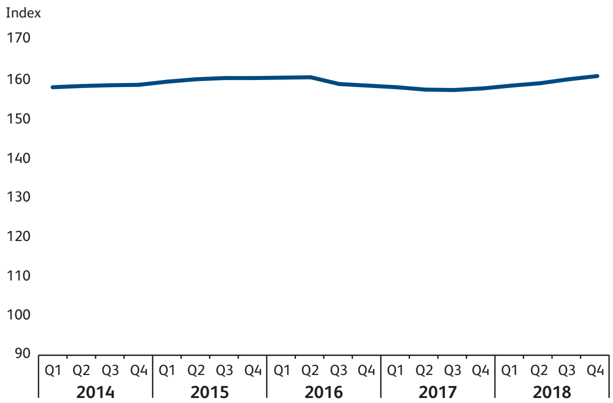
Total Number of Visitors



Source: Hong Kong Tourism Board (data as of January 2019)

According to Jones Lang LaSalle, rents for retail premises in premium shopping centres increased by 2.0% overall.

Premium Prime Shopping Centre Rental Index (2009 Q4=100)



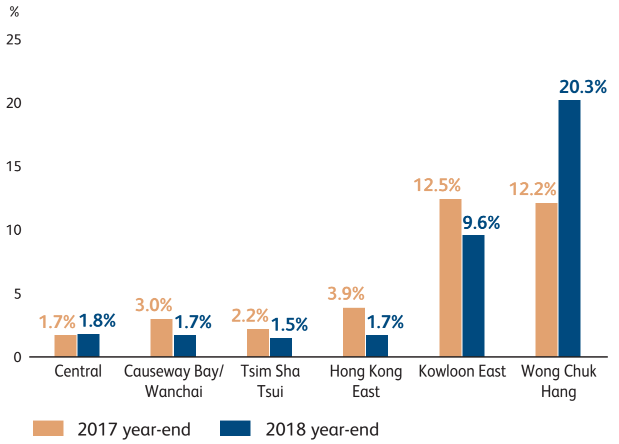
Source: Jones Lang LaSalle (data as of January 2019)

© Photographed by Geoff Letchford

Office

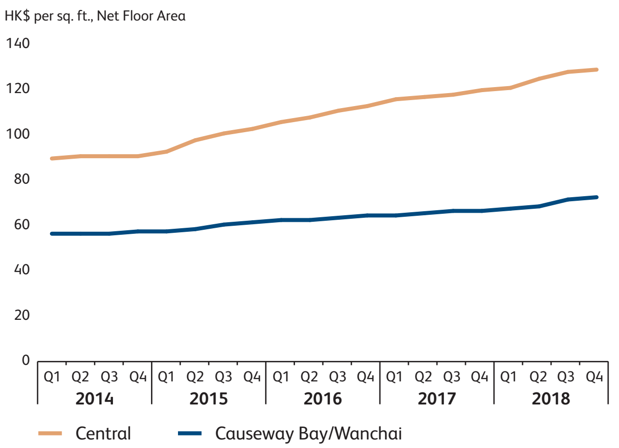
Grade "A" office rents in general continued to increase during 2018, being primarily driven by the demand from Mainland Chinese firms as well as the growing number of co-working operators. Spot rents in Central and Causeway Bay in 2018 showed a solid increase of 8.0% and 8.6% respectively over 2017. During 2018, Mainland China companies took up about 29% of new lettings in Central. Analysed by locations, both the traditional and new commercial areas saw a decrease or on par in vacancy rates at the end of 2018 when compared to 2017. The exception was Wong Chuk Hang, which showed an increase mainly due to new supplies. Strong demand for office space in Central was maintained. With limited supply and ongoing rental increases, the decentralisation trend continued as banks and professional firms as well as multinational corporations moved to other areas like Causeway Bay, Hong Kong East and Kowloon East. Co-working operators expanded into Grade "A" offices to provide premium services, a trend that resulted in the occupancy of a considerable amount of office space.

Grade "A" Office Vacancy Rate in 2017 and 2018



Source: Jones Lang LaSalle (data as of January 2019)

Grade "A" Office Monthly Net Effective Rental Value



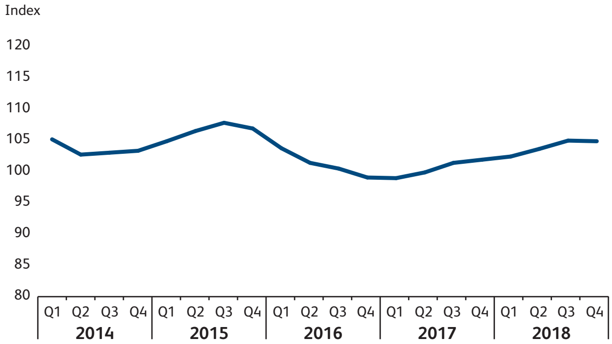
Source: Jones Lang LaSalle (data as of January 2019)

Luxury Residential

Luxury residential rents began to pick up in 2017 and the trend continued in 2018. However, the traditional luxury market is facing headwinds due to unfavourable economic outlook and tight housing budgets in multinational corporations.

According to Jones Lang LaSalle, luxury residential rents increased 2.9% as compared to 2017.

Luxury Residential Rental Index (2009 Q4=100)



Source: Jones Lang LaSalle (data as of January 2019)

© Photographed by Geoff Letchford

Management's Discussion and Analysis

Strategy

The Group is committed to providing our shareholders with sustainable returns from our property portfolio, which is predominantly located in Hong Kong's prime commercial area of Causeway Bay. This district will remain the core of our investment and operational focus. The Group also continues to seek investment opportunities beyond our core geographical area.

We continuously strive to enhance the value of our properties through asset enhancement, repositioning and redevelopment. We also focus on curating the contents of the Lee Gardens community for our tenants and other stakeholders. We are proud of our team of passionate, responsible and forward-looking professionals who strategically plan and manage our portfolio while ensuring everything we do is underpinned by sound financial management.

Review of Results

	2018 HK$ million	2017 HK$ million	Change %
Turnover	**3,890**	3,548	+9.6
Recurring Underlying Profit	**2,536**	2,349	+8.0
Underlying Profit	**2,536**	2,491	+1.8
Reported Profit	**6,033**	3,636	+65.9

The Group's turnover in 2018 was HK$3,890 million, an increase of 9.6% from HK$3,548 million in 2017, mainly attributable to the meaningful contribution from Lee Garden Three and the strong performance of the office sector.

Recurring Underlying Profit, the key measurement of our core leasing business performance, was up 8.0% to HK$2,536 million (2017: HK$2,349 million). Our Underlying Profit in 2018, was also HK$2,536 million, up by 8.0% from 2017 on a normalised basis after excluding the one-off compensation received from a retail tenant in 2017. Basic earnings per share based on Recurring Underlying Profit and Underlying Profit correspondingly rose to HK242.40 cents (2017: HK224.68 cents and HK238.26 cents respectively), up 7.9% and 1.7% respectively.

The Group's Reported Profit for 2018 was HK$6,033 million (2017: HK$3,636 million). A fair value gain of HK$3,532 million (2017: HK$853 million) on the Group's investment properties' valuation was the key contributor. As at year-end 2018, the external valuation of the Group's investment property portfolio increased by 6.9% to HK$77,442 million (2017: HK$72,470 million). This reflected a combination of factors: a generally positive rental outlook for our core portfolio, and a number of asset enhancement works completed. The capitalisation rates used in valuing each portfolio remained unchanged from those used as at 31 December 2017.

Review of Operations

Hysan's portfolio of retail, office and residential investment properties has a total gross floor area of approximately 4.5 million square feet. As at 31 December 2018, about 85% of the Group's investment properties by gross floor area were retail and office properties in Causeway Bay. The remaining 15% was represented by residential properties mainly in the Mid-Levels.

The turnover of each sector is shown as below:

	2018 HK$ million	2017 HK$ million	Change %	Contribution to Turnover 2018 %	Contribution to Turnover 2017 %
Retail sector	**1,923**	1,925	–	**49.4**	54.3
Office sector	**1,688**	1,359	+24.2	**43.4**	38.3
Residential sector	**279**	264	+5.7	**7.2**	7.4
	3,890	3,548	+9.6	**100.0**	100.0

The increased weight from the Office sector towards turnover was mainly due to the new Lee Garden Three, which provided predominantly office space, together with higher positive rental reversion achieved by other office buildings in our portfolio.

Key Performance Indicators

The Group's turnover growth and occupancy rate are the key measurements used for assessment of our core leasing business performance. Cost effectiveness is assessed by the Group's management using the property expenses ratio (as a percentage of turnover).

Key Performance Indicators	Definition	Business Performance: Portfolio	2018	2017
Turnover Growth	Rental revenue in current year vs that in last year	Retail Office Residential	**–** **+24.2%** **+5.7%**	-2.2% +5.2% -3.6%
Occupancy Rate	Percentage of total lettable area leased / total lettable area of each portfolio at year end	Retail* Office* Residential	**98%** **97%** **88%**	97% 96% 75%
Property Expenses Ratio	Property expenses divided by turnover	N/A	**13.4%**	12.7%

* 2017 percentages did not include Lee Garden Three, the redevelopment of which was completed in December 2017.

Note: Except for the occupancy rate mentioned above, no changes have been made to the source data or calculation methods used when compared to 2017.

Retail Portfolio

The Group's retail portfolio turnover was on par with last year at HK$1,923 million (2017: HK$1,925 million). There was good contribution from turnover rent of HK$81 million (2017: HK$48 million). The overall rental reversion in renewals, rent review and new lettings was largely neutral reflecting satisfactory positive reversions mixed with the impact from targeted tenant repositioning. The portfolio's occupancy, including the new Lee Garden Three's retail portion, was 98%, as at 31 December 2018 (31 December 2017: 97%, excluding Lee Garden Three).

Foot traffic in Hysan's retail portfolio saw an increase of around 11% in 2018, as compared to full year 2017. There was also a general improvement in the estimated overall tenant sales within the portfolio. Estimated tenant sales increased by around 16.2% as compared to 2017, outperforming Hong Kong's year-on-year retail sales growth of 8.8%.

Lee Garden Three held its official opening in November 2018. The event was attended by hundreds of well-wishers as well as members of the media, and was Hysan's stand-out event of the year. Lee Garden Three is well known for its lifestyle shops such as HOMELESS, Tavolo Kids Living, BoConcept, KitchenAid and Stressless, plus hair stylist M Plus. The building's food and beverage outlets have also become some of the most popular dining destinations in town, with Belgos, John Anthony, Starbucks flagship store, Next Door Café and Bar, NOC Coffee, Reserva Ibérica Tapas Bar & Café, Sweet Fashion House and Zentro East offering a wide variety of food and drinks. A Happy Pancake, renowned for its long lines of customers, rounds off the list.

The new building's opening was a good opportunity for us to further energise the rest of the portfolio. 2018 saw a significant improvement in our "content" provision. Initiatives included an enhanced tenant mix, strong tenant and third-party partnerships, unique experiences and events, key branding programmes, improved and expanded loyalty programmes, and the start of a digital transformation.

New tenants included the family members' club Maggie & Rose, a strong addition to our children-focused Lee Garden Two. The Spa by Valmont and Sake Diamond added new lifestyle experiences to the portfolio, while Hysan Place welcomed a number of new or expanded sportswear tenants. In addition to our new food venues in Lee Garden Three, we also welcomed destination restaurants like 10 Shanghai and Ta-ke in Lee Garden Two, the popular experiential Haidilao in Lee Theatre Plaza, and a number of more casual eateries in Hysan Place.

We believe in maintaining strong relationships with our tenants after they move in. In 2018, almost a dozen partnership events were held with tenants and third parties, thereby bringing more attention to the area, generating business for tenants, and providing unique experiences to high-end shoppers. Brunello Cucinelli, BVLGARI, CHANEL BEAUTÉ, Dior, Lancôme, Louis Vuitton, Roger Vivier, rue Madame, The Spa by Valmont and TORY BURCH were among the tenants that hosted exclusive and glamorous events in partnership with Hysan.

We also generated considerable excitement for our general shoppers in the malls. Chinese New Year, Valentine's Day, Mother's Day and a Go Green restaurant campaign saw us hosting popular activities backed by strong promotions. The second half of the year also saw further campaigns for Mid-Autumn Festival with Maxim's, and Christmas and New Year with eslite bookstore. These campaigns combined great shopping or dining opportunities with special experiences.

We are building Lee Gardens' reputation as a venue for quality children's entertainment to attract more family traffic. Absolutely Fabulous Children's Theatre's monthly performances, the Hong Kong International Young Readers' Festival, and the reading of Gruffalo by Kidsfest were among the highlights of the year. There was also a Royal Kids Etiquette series of classes for younger children. More activities for children are planned for 2019.

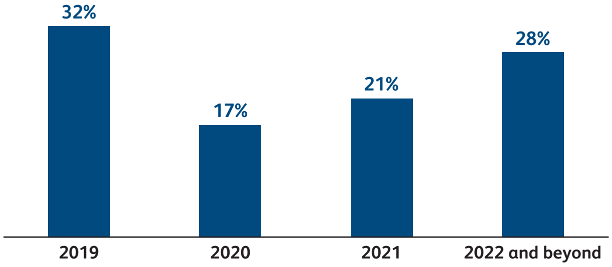
During 2018, we also took our events outdoors. In the first half of the year, the popular Cathay Pacific/HSBC Rugby Sevens Festival at Lee Gardens and its partner Lee Gardens Egglette Festival attracted the most attention. The remaining months began with Hong Kong Ballet's Alice (in Wonderland) street performances, as well as the November Standard Chartered Art Fun in Causeway Bay Night Parade. LOVE is NEARBY Christmas Community Festival, where top band Supper Moment and other singers performed at a popular street fair outside Lee Garden One, rounded off the year.

Running alongside more than a hundred of these events and activities were signature key branding programmes, supported by shopper promotion campaigns. Leeisure, Shopaholic, DeLeecious, and Athleeisure were all launched to attract more footfall and spending for different retail segments. In addition, strong efforts were made in both media and social media to drive awareness of Lee Gardens among Mainland Chinese and other tourists. A new and comprehensive tourist booklet was launched, while a VIP membership card for tourists, the Purple Card, was unveiled during the year. Moreover, we reinforced our partnerships with Hong Kong Tourism Board and leading local hotels to further promote our messages.

In regard to our loyalty programmes, Club Avenue for VIPs and Lee Gardens Plus for general shoppers, saw a substantial growth in their membership in 2018, as compared to 2017. Sales attributable to Club Avenue members experienced double-digit percentage growth. We are encouraged by the growth of these and will further invest in the hardware and software of our programmes to benefit all members.

On the technology front, the area-wide high-speed Wi-Fi system was successfully launched. The paperless e-coupon system was also unveiled and was well supported from the outset by a majority of shop tenants. We made substantial inroads into the enhancement of data collection from all touchpoints, with enhanced data privacy protection. In addition, an integrated customer relationship management system is about to be launched. More than 100 digital signs are now under a central control point, while more interactive e-directories have been added. The use of big data, analytics, prediction and artificial intelligence will be key to the future of the retail sector. Hysan is committed to making the best use of available technology to gain better insight and to add value to all our retail tenants.

Retail Lease Expiry Profile by Area Occupied (As at 31 December 2018)



Growing a community and curating its content require committed buy-in from those who do business in the neighbourhood. Lee Gardens Association has taken on the role of enlivening the area through street events, activities and social media promotions. Many of the area's main events, like the Rugby Sevens Festival, Egglette Festival and Night Parade were spearheaded by the Association. New Association members include several traditional businesses that have operated in the area for decades, and which have taken part in a number of the Association's social media drives. We are heartened that many of the neighbourhood's property owners have expressed interest in the creative business concepts introduced by the Association. Hysan looks forward to more cooperation with the Association to further enhance the area as a popular destination for all.

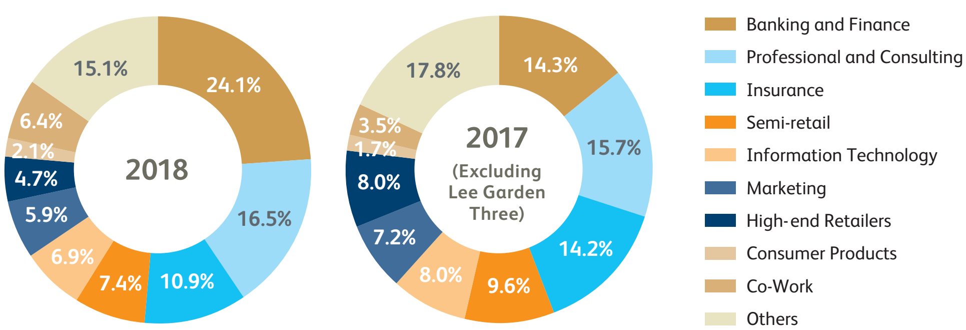
Office Portfolio

The Group's office portfolio turnover increased by 24.2% to HK$1,688 million (2017: HK$1,359 million). This performance reflected contributions from the newly completed Lee Garden Three, as well as overall robust positive rental reversion on renewals, rent review and new lettings. The office portfolio occupancy was 97%, as at 31 December 2018, including occupancy of the new Lee Garden Three (31 December 2017: 96%, excluding Lee Garden Three).

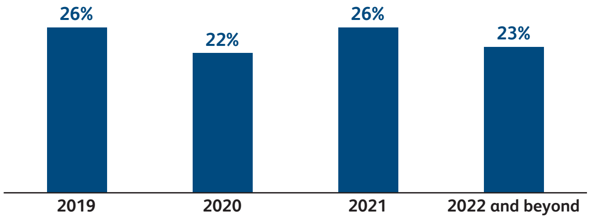
Tenants demand the highest standards of both building hardware and building service software. Lee Garden Three offers many green and wellness features, including a Hong Kong-first commercial building running track, together with a popular retail podium of restaurants and lifestyle shops. All these amenities are further supplemented by the area's eclectic mix of commercial and social offerings plus ample convenient parking facilities. Lee Gardens has become an established and viable choice for multinational and local firms.

We have maintained a diverse tenant mix over the years. With the completion of Lee Garden Three, which has attracted a number of Banking and Finance tenants, this sector has increased to about 24% and has now overtaken Professional and Consulting as the largest sector area-wise in our office portfolio. Banking and Finance, together with the next three top sectors, including Professional and Consulting, Insurance and Semi-Retail, take up around 59% of our office lettable floor area (2017: 54%).

Office Tenant Profile by Area Occupied as at Year-end



Office Lease Expiry Profile by Area Occupied
(As at 31 December 2018)



Residential Portfolio

Hysan's residential portfolio, comprising mainly the units in Kennedy Road's Bamboo Grove, recorded a 5.7% growth in turnover to HK$279 million (2017: HK$264 million). The residential sector's occupancy improved to 88% (31 December 2017: 75%). The units previously under renovation are now available and have proven to be popular. We continue to make improvements to Bamboo Grove to attract prospective tenants. A small urban farm, for example, is being planned for Bamboo Grove to enhance the community spirit.

The rental reversion was overall positive in renewals, rent review and new lettings.

Tai Po Luxury Residential Project

The design development of our low-density residential development project at Tai Po is making good progress. Various statutory submissions are ongoing. Site work has also commenced.

"My great, great grandfather worked as a chef for an American trading company where he learned how to cook western cuisine. Eventually, he branched out to open his own restaurants and moved across the border to Hong Kong. The design and interiors, much like certain items on the menu, have not changed since the restaurant first opened. If we change anything, it will no longer be 'Tai Ping Koon' for our customers. Some of them, including plenty of celebrities, have been coming here for generations."

Andrew Chui
Managing Director of
Tai Ping Koon

Financial Review

A review of the Group's results and operations is featured in the preceding sections. This section deals with other significant financial matters.

Operating Costs

The Group's operating costs are generally classified as property expenses (direct costs and front-line staff wages and benefits) and administrative expenses (indirect costs largely representing payroll related costs of management and head office staff).

Property expenses increased by 16.5% to HK$523 million (2017: HK$449 million), reflecting the commencement of operation of Lee Garden Three during the year. The property expenses to turnover ratio thus increased slightly from 12.7% to 13.4% as compared to 2017. Administrative expenses decreased by 8.1% to HK$227 million (2017: HK$247 million).

Finance Costs

Finance costs amounted to HK$222 million in 2018, an increase of 40.5% from HK$158 million in 2017, mainly due to (i) cessation of interest expense capitalisation of HK$51 million upon Lee Garden Three's completion in 2017; and (ii) interest rate increases in 2018, which impacted interest cost of our floating rate debts. If the capitalised interest expenses and related borrowing costs were expensed last year, the Group's finance costs in 2017 would have been HK$209 million. The finance costs of 2018 would then have increased by HK$13 million or 6.2%. The Group's average cost of finance in 2018 was 3.6%, a slight increase from 3.4% reported for 2017.

Further discussion of the Group's treasury policy, including debt and interest rate management, is set out in the "Treasury Policy" section.

Revaluation of Investment Properties

As at 31 December 2018, the Group's investment real estate portfolio was valued at HK$77,442 million, an increase of 6.9% from HK$72,470 million as at 31 December 2017. This valuation was carried out by Knight Frank, an independent professional valuer, on the basis of open market value. The capitalisation rates used in valuing each portfolio remained unchanged from those used as at 31 December 2017.

Fair value gain on investment properties (excluding capital expenditure spent on the Group's investment properties) of HK$3,532 million (2017: HK$853 million) was recognised in the Group's consolidated statement of profit or loss for the year. This figure reflected a combination of factors: a generally positive rental outlook across our portfolio and the completion of a number of asset enhancement works.

The following shows the property valuation of each portfolio at year-end.

	2018 HK$ million	2017 HK$ million	Change %
Retail	**35,102**	33,188	+5.8
Office	**34,159**	31,325	+9.0
Residential	**8,181**	7,957	+2.8
	77,442	72,470	+6.9

Investment in Associates and a Joint Venture

The Group's investment in associates mainly represents interests in Shanghai Grand Gateway in Shanghai, China. The share of results of associates increased to HK$288 million (2017: HK$220 million). As at 31 December 2018, properties at Shanghai Grand Gateway had been revalued at fair value by an independent professional valuer. The Group's share of the revaluation gain, net of the corresponding deferred tax thereon, amounted to HK$96 million (2017: HK$11 million).

The Group's investment in a joint venture represents interests in a Tai Po residential project. The increase in carrying value represents costs incurred by the project.

Other Investments

In addition to placing surplus funds as time deposits in banks with strong credit ratings, the Group also invested in investment grade debt securities.

Excluding recognition of imputed interest income on interest-free loan to a joint venture company for a residential site development in Tai Po of HK$29 million (2017: HK$28 million), like-for-like interest income increased by 19.5% to HK$49 million (2017: HK$41 million). This figure mainly reflected higher interest rates from deposits.

During 2018, the Group invested in a real estate fund covering certain properties in Hong Kong and other major cities in Asia, with a view to expanding our reach in collaboration with professional property managers and to generate a new source of income and capital.

Cash Flow

Cash flow of the Group during the year is summarised below. Cash include liquid cash and bank deposits with less than 3 months' tenor.

	2018 HK$ million	2017 HK$ million	Change %
Cash generated from operations	**3,224**	2,900	+11.2
Net (advance to) repayment from a joint venture company	**(56)**	935	n/m
Net borrowing (repayment)	**46**	(130)	n/m
Interest and taxation	**(636)**	(587)	+8.3
Dividends paid and proceeds on exercise of options	**(1,551)**	(1,524)	+1.8
Capital expenditure	**(1,203)**	(1,947)	-38.2
Other investments	**211**	1,020	-79.3
Net cash inflow	**35**	667	-94.8

n/m: not meaningful

The Group's net cash generated from operations was HK$3,224 million (2017: HK$2,900 million), HK$324 million higher than in 2017, reflecting the growth of our core leasing business.

Net advance to a joint venture company of HK$56 million was for a residential site development in Tai Po. In 2017, net repayment from a joint venture company was HK$935 million after the completion of project financing on land acquisition costs.

Net borrowing was HK$46 million, reflecting net borrowing of fixed rate notes of HK$150 million, and repayment to non-controlling interest of a subsidiary during the year. In 2017, net repayment was HK$151 million during the year.

Cash from other investments was HK$211 million (2017: HK$1,020 million), mainly attributable to reduction in deposits with longer tenor.

The Group paid dividends of HK$1,444 million (2017: HK$1,411 million), being the 2017 second interim dividend of HK111 cents per share (2017: HK109 cents) and the 2018 first interim dividend of HK27 cents per share (2017: HK26 cents).

Capital Expenditure and Management

The Group is committed to enhancing the asset value of our investment property portfolio through selective asset enhancement and redevelopment. The Group has also established a portfolio-wide whole-life cycle maintenance programme as part of our ongoing strategy to pro-actively implement preventive maintenance activities. Total cash outlay of capital expenditure during the year was HK$1,203 million (2017: HK$1,947 million), including the payment of the construction costs of Lee Garden Three.

Treasury Policy

Market Highlights

The global economy performed strongly at the beginning of 2018. However, as sentiment soured amid growing China-U.S. trade tensions, the Hong Kong stock market tumbled more than 20% from its peak in January and global financial markets became more volatile. In view of the 10-year lowest unemployment rate and relatively low inflation rate, the U.S. Federal Reserve raised the federal fund rate by four hikes, amounting to a total of 100 basis points in 2018. With the expectation of market volatility and slowing global economic growth, the Federal Reserve lowered its forecast for interest rate hikes in 2019. Under the currency board system, Hong Kong Monetary Authority also raised its base rate in line with the federal funds rate by 100 basis points during 2018. The Hong Kong dollar (HKD) HIBOR rate also rose sharply during 2018, narrowing the differential with the U.S. dollar LIBOR rate. The 3-month HKD HIBOR increased from around 1.3% at the end of 2017 to around 2.3% at the end of 2018. Despite the increase in HIBOR, the Hong Kong bank loans market continued to be liquid. The credit margin of bank loans for companies with investment grade credit ratings saw a modest decline.

Despite the slow-down in the global economy and uncertainties in the macro environment, the Hong Kong economy is fundamentally in good shape and the unemployment rate at 2.8% is the lowest since 1998. The completion of two mega infrastructure projects, namely the Hong Kong-Zhuhai-Macau Bridge and the Express Rail Link, is set to further increase the number of inbound tourist arrivals from Mainland China. A rise in domestic household spending may further benefit Hong Kong's economy. However, the Hong Kong economy also saw some signs of slowing down when GDP growth in Q3 and Q4 retreated to 2.8% and 1.3% respectively, when compared to 4.1% in the first half of the year.

Uncertainties in global political issues and financial markets may worsen our operating environment as well as dampen expansion. It is therefore important for the Group to continue with our prudent financial management policy.

Capital Structure Management

To ensure a healthy financial position and a suitable capital structure servicing the Group's finance needs and sustainable growth, the Group always strives to diversify its funding sources, maintain a suitable debt maturity profile relative to the overall use of funds, maintain adequate liquidity, keep a low borrowing margin relative to market conditions, and adopt suitable hedging and forex management strategies.

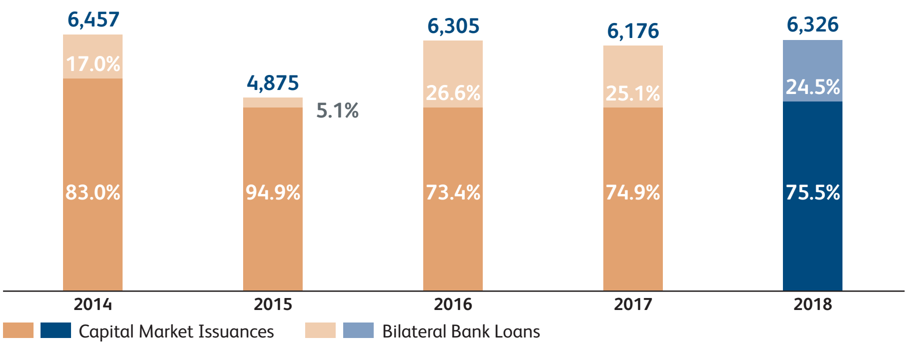
Funding Source

During the year, the Group issued and repaid medium-term notes of HK$300 million and HK$150 million respectively. The Group's outstanding gross debt[1] was HK$6,326 million (2017: HK$6,176 million) at year-end 2018. All the outstanding borrowings are on an unsecured basis.

At the end of 2018, the proportion of debts sourced from the capital market increased slightly to 75.5% (2017: 74.9%). The Group continued to maintain long-term relationships with a number of local and overseas banks to diversify its funding sources. At year-end of 2018, eight local and overseas banks provided bilateral banking facilities to the Group as funding alternatives.

The following graph shows the percentages of total outstanding gross debts sourced from banks and the debt capital markets over the past five years.

Sources of Financing at Year-end (HK$ milion)



The Group also strives to maintain an appropriate debt maturity profile to match with the nature of our assets and operations. As at 31 December 2018, the average maturity of the debt portfolio was about 3.9 years (2017: 4.3 years), of which about HK$300 million or 4.7% of the outstanding gross debt will be due in 2019. Given our strong cash balance, debt repayment will not cast much immediate refinancing pressure.

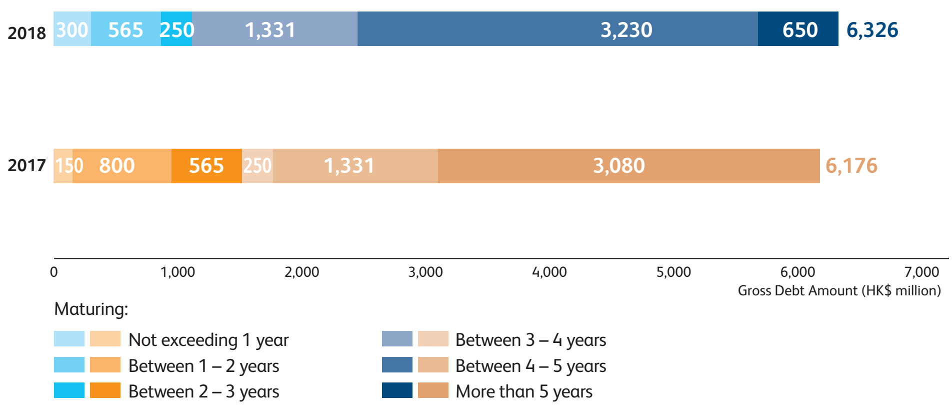
To further diversify our source of funding into investors who highly regard businesses with green initiatives, the Group has established its Green Finance Framework in late 2018, leveraging our sustainable building development and operations with green initiatives. The framework supports both green bonds and green loans enabling a choice of flexibility in the Group's future financing. After the reporting period, the Group has raised its first green bond of HK$300 million at a coupon rate of 3.33% due in 2026.

1 The gross debt represented the contractual principal payment obligations as at 31 December 2018. However, in accordance with the Group's accounting policies, the debt was measured at amortised costs, using the effective interest method. As disclosed in the consolidated statement of financial position as at 31 December 2018, the book value of the outstanding debt of the Group was HK$6,322 million (31 December 2017: HK$6,185 million).

Maturity Profile

The graph below shows the debt maturity profile of the Group at year-end 2018 and 2017.

Debt Maturity Profile at 2018 and 2017 Year-end

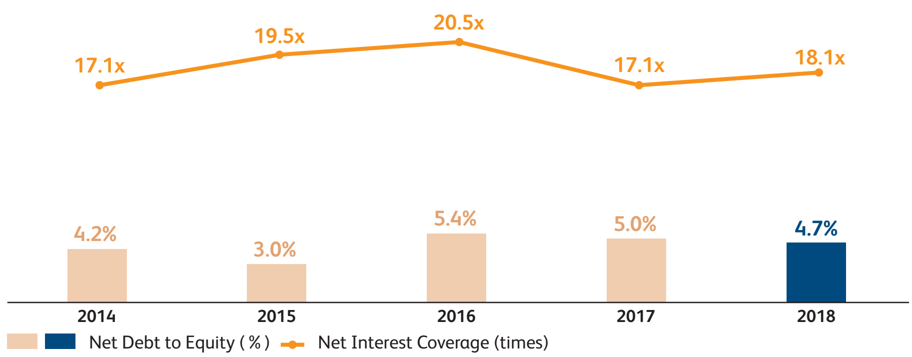


Gearing Ratio and Net Interest Coverage

The Group's gearing ratio, as measured by Net Debt to Equity ratio[1], decreased slightly from 5.0% at year-end of 2017 to 4.7% at year-end of 2018, because of the increase in equity from HK$70 billion at year-end of 2017 to HK$74 billion at year-end of 2018 driven by the increase in fair value of investment properties. The Group's Net Interest Coverage[2] increased to 18.1 times for 2018 (2017: 17.1 times) due to the improved operating results. The low gearing and strong ability to meet interest payments reflected the Group's resilience and capability to raise further debt for new investments and projects, if necessary.

The graph below shows the level of leverage and our ability to meet interest payment obligations over the past five years.

Net Debt to Equity and Net Interest Coverage at Year-end



1 Net Debt to Equity is defined as borrowings less time deposits, cash and cash equivalents divided by shareholders' funds.
2 Net Interest Coverage is defined as gross profit less administrative expense before depreciation divided by net interest expenses.

Credit Rating

The Group aims at maintaining investment-grade credit ratings to ensure a stable and lower cost of financing, and reflect our prudent financial management strategy. During the year, Fitch upgraded the Group's credit rating from BBB+ to A-, reflecting the Group's strong financial position.

	2018	2017
Moody's	**A3**	A3
Standard and Poor's	**BBB+**	BBB+
Fitch	**A-**	BBB+

Liquidity Management

As at 31 December 2018, the Group had cash and bank deposits totalling about HK$2,817 million (2017: HK$2,662 million). In order to preserve liquidity and enhance interest yields, the Group invested HK$227 million (2017: HK$737 million) in debt securities.

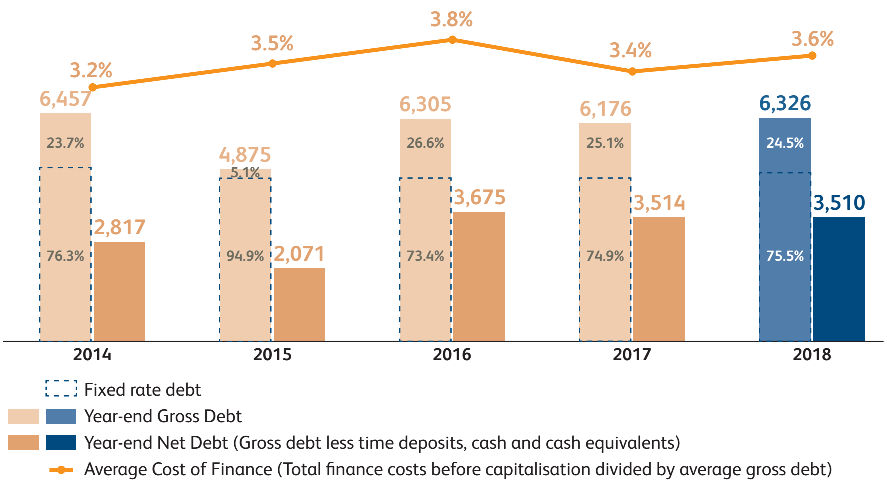
Further liquidity, if needed, is available from the undrawn committed facilities offered by the Group's relationship banks. These facilities, amounted to HK$950 million at year-end 2018 (2017: HK$950 million), essentially allowing the Group to obtain additional liquidity as the need arises.

Interest Rate Management

The fixed rate debt ratio increased slightly to 75.5% at year-end 2018 from 74.9% at year-end 2017. 2018 saw the start of interest rate normalisation cycle and it is expected that interest rate will continue to rise in 2019, although in a slower pace when compared to 2018. We believe we are in a good position to manage our finance costs given our fixed rate debt ratio.

The diagram below analyses the Group's debt level in term of gross and net debt, fixed and floating rates, together with average cost of finance over the past five years.

Debt Levels (HK$ million) and Average Cost of Finance (%)



Foreign Exchange Management

The Group aims to achieve minimal currency exposure and does not speculate in currency movements for asset and liability management. Except for US$300 million fixed rate notes, which have been hedged by an appropriate hedging instrument, all of the Group's borrowings were denominated in Hong Kong dollar. For the US$300 million fixed rate notes issued in January 2013, a hedge was entered effectively to convert the borrowing into Hong Kong dollar.

On the investment side, as at 31 December 2018, the Group's outstanding foreign currency balances in cash, time deposits, debt securities and a real estate fund amounted to US$88 million (2017: US$131 million), of which US$28 million (2017: US$70 million) was hedged by foreign exchange forward contracts.

Other foreign exchange exposure mainly relates to investments in the Shanghai project. These unhedged foreign exchange exposures amounted to the equivalent of HK$3,715 million (2017: HK$3,779 million) or 4.3% (2017: 4.6%) of total assets.

Use of Derivatives

As at 31 December 2018, outstanding derivatives were mainly related to the hedging of foreign exchange exposures. Strict internal guidelines have been established to ensure derivatives are used to manage volatilities or to adjust the appropriate risk profile of the Group's treasury assets and liabilities.

Counterparty Credit Risk

All the deposits are placed with banks with strong credit ratings and the counterparty risk is controlled via prescribed limits and is monitored on a regular basis.

Before entering into any hedging transaction, the Group will ensure that its counterparty possesses strong investment-grade ratings to control credit risk. As part of our risk management, a limit on maximum risk-adjusted credit exposure is assigned to each counterparty, which basically reflects the credit quality of the counterparty.

"We opened our shop first on Lan Fong Road in 1986, and then we moved to Lee Garden One in 2005, so we've had this shop for 32 years. We have seen Causeway Bay change over these years, and we have built up so many memories here. Our customers are used to us being here, so we've never left. We designed the shop ourselves, and we've kept it simple and minimalistic instead of following trends. We do everything from our heart. It's important to us that when our customers wear our clothes, they feel happy."

Rosanna Ma & Ben Leung
Zeta store owners

3 Corporate Governance

Our People

Board of Directors

The Board is responsible for the stewardship of the Company, overseeing its conducts and affairs to create sustainable value for the benefit of its shareholders.

Executive Director

Lee Irene Yun-Lien
Chairman of the Board

N S

Board appointment Ms. Lee was appointed a Non-Executive Director in March 2011, Non-Executive Chairman in May 2011, and executive Chairman in March 2012. She also serves as a director of certain subsidiaries of the Group. She is aged 65.

Competencies and experience Ms. Lee leads the Group in her executive Chairman role. Ms. Lee is an independent non-executive director of Cathay Pacific Airways Limited, HSBC Holdings plc, The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank Limited. She is a Member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority. She has held senior positions in investment banking and fund management in a number of renowned international financial institutions. Previously, Ms. Lee was an executive director of Citicorp Investment Bank Limited in New York, London and Sydney, and head of corporate finance at Commonwealth Bank of Australia and chief executive officer of Sealcorp Holdings Limited, both based in Sydney. She was also the non-executive chairman of Keybridge Capital Limited (listed on the Australian Stock Exchange), a non-executive director of ING Bank (Australia) Limited, QBE Insurance Group Limited and The Myer Family Company Pty Limited, an independent non-executive director of Noble Group Limited (listed on Singapore Exchange Limited) and CLP Holdings Limited, and a member of the Advisory Council of JP Morgan Australia. Ms. Lee was formerly a member of the Australian Government Takeovers Panel.

She is a member of the founding Lee family, sister of Mr. Lee Anthony Hsien Pin (Non-Executive Director) and his alternate on the Board.

Qualifications Ms. Lee holds a Bachelor of Arts Degree from Smith College, United States of America, and is a Barrister-at-Law in England and Wales and a member of the Honourable Society of Gray's Inn, United Kingdom.

Committees Ms. Lee is the Chairman of the Nomination Committee and was the Chairman of the Strategy Committee.

Non-Executive Directors

Churchouse Frederick Peter
Independent Non-Executive Director

A

Board appointment Mr. Churchouse was appointed an Independent Non-Executive Director in December 2012 and is aged 69.

Competencies and experience Mr. Churchouse has been involved in Asian securities and property investment markets for more than 30 years. Currently, he is a private investor including having his own private family office company, Portwood Company Ltd. He is an independent non-executive director of Longfor Group Holdings Limited (formerly known as Longfor Properties Co. Ltd). He is also the publisher and author of *The Churchouse Letter*. In 2004, Mr. Churchouse set up an Asian investment fund under LIM Advisors. He acted as a director of LIM Advisors and as Responsible Officer until the end of 2009. Prior to this, Mr. Churchouse worked at Morgan Stanley as a managing director and advisory director from early 1988. He acted in a variety of roles including head of regional research, regional strategist and head of regional property research. He was also a board member of Macquarie Retail Management (Asia) Limited.

Qualifications Mr. Churchouse gained a Bachelor of Arts degree and a Master of Social Sciences degree from the University of Waikato in New Zealand.

Committee Mr. Churchouse is a member of the Audit and Risk Management Committee.

Fan Yan Hok Philip
Independent Non-Executive Director

A R N S

Board appointment Mr. Fan was appointed an Independent Non-Executive Director in January 2010. He is aged 69.

Competencies and experience Mr. Fan is an independent non-executive director of China Everbright International Limited, First Pacific Company Limited, China Aircraft Leasing Group Holdings Limited and PFC Device Inc. He was previously an independent non-executive director of Guolian Securities Co., Ltd. and an independent director of Goodman Group.

Qualifications Mr. Fan holds a Bachelor's Degree in Industrial Engineering and a Master's Degree in Operations Research from Stanford University, as well as a Master's Degree in Management Science from the Massachusetts Institute of Technology.

Committees Mr. Fan is the Chairman of the Remuneration Committee, a member of the Audit and Risk Management Committee and the Nomination Committee, and was a member of the Strategy Committee.

A Audit and Risk Management Committee
R Remuneration Committee
N Nomination Committee
S Strategy Committee

Non-Executive Directors (continued)

Lau Lawrence Juen-Yee

Independent Non-Executive Director

N

Board appointment Professor Lau was appointed an Independent Non-Executive Director in December 2014. He is aged 74.

Competencies and experience Professor Lau is currently Ralph and Claire Landau Professor of Economics at The Chinese University of Hong Kong. He serves as Chairman of the Board of Directors for The Chinese University of Hong Kong (Shenzhen) Finance Institute, aka Shenzhen Finance Institute. He is also an independent non-executive director of AIA Group Limited, CNOOC Limited, Semiconductor Manufacturing International Corporation ("SMIC") and Far EasTone Telecommunications Co., Ltd. (listed on the Taiwan Stock Exchange). Professor Lau joined the faculty of the Department of Economics at Stanford University in 1966, and had a long and distinguished career there. Upon his retirement in 2006, he became Kwoh-Ting Li Professor in Economic Development, Emeritus, at Stanford University. From 2004 to 2010, Professor Lau served as Vice-Chancellor (President) of The Chinese University of Hong Kong. From September 2010 to September 2014, he served as Chairman of CIC International (Hong Kong) Co., Limited, a subsidiary of China Investment Corporation. From June 2011 to December 2014, Professor Lau was a non-executive director of SMIC. Professor Lau is a member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority, Chairman of its Governance Sub-committee and member of its Currency Board Sub-committee and Investment Sub-committee, Vice-Chairman of Our Hong Kong Foundation, a member and Chairman of the Prize Recommendation Committee, LUI Che Woo Prize Company and a member of the Hong Kong Trade Development Council (HKTDC) Belt and Road Committee. He was appointed a Justice of the Peace in July 2007, awarded the Gold Bauhinia Star in 2011 by the Government of the Hong Kong Special Administrative Region and served as a member of the 11th and 12th National Committee of the Chinese People's Political Consultative Conference and a Vice-Chairman of its Economics Sub-committee.

Qualifications Professor Lau received his B.S. degree (with Great Distinction) in Physics from Stanford University and his M.A. and Ph.D. degrees in Economics from the University of California at Berkeley.

Committee Professor Lau is a member of the Nomination Committee.

Poon Chung Yin Joseph

Independent Non-Executive Director

A R N S

Board appointment Mr. Poon was appointed an Independent Non-Executive Director in January 2010. He is aged 64.

Competencies and experience Mr. Poon is an independent non-executive director of AAC Technologies Holdings Inc. He was formerly the group managing director and deputy chief executive officer of Tai Chong Cheang Group, managing director and deputy chief executive of Hang Seng Bank Limited and had held senior management posts in HSBC Group and a number of international renowned financial institutions. Mr. Poon was the former chairman of Hang Seng Index Advisory Committee, Hang Seng Indexes Company Limited, a former member of the Board of Inland Revenue of Hong Kong Special Administrative Region and the Environment and Conservation Fund Investment Committee, and a former committee member of the Chinese General Chamber of Commerce.

Qualifications Mr. Poon holds a Bachelor of Commerce degree from the University of Western Australia, is a member of Chartered Accountants Australia and New Zealand, and the Hong Kong Institute of Certified Public Accountants. Mr. Poon is also a Fellow of the Hong Kong Institute of Directors.

Committees Mr. Poon is the Chairman of the Audit and Risk Management Committee, a member of the Remuneration Committee and the Nomination Committee, and was a member of the Strategy Committee.

Wong Ching Ying Belinda

Independent Non-Executive Director

Board appointment Ms. Wong was appointed an Independent Non-Executive Director in December 2018 and is aged 47.

Competencies and experience Ms. Wong is currently the chief executive officer of Starbucks China. Ms. Wong joined Starbucks Coffee Company in 2000 and held leadership positions across a variety of business units and geographies, including marketing director for the Asia Pacific region of Starbucks Coffee, managing director of Starbucks Singapore and general manager of Starbucks Hong Kong. Prior to joining Starbucks group in 2000, Ms. Wong was the marketing manager of McDonald's China Development Company. She has extensive experience in retail, food and beverage, people, brand development and growth strategy across the Greater China and Asia Pacific regions. She serves as a member on the Faculty Advisory Board for the University of British Columbia's Sauder School of Business.

Qualifications Ms. Wong holds a Bachelor of Commerce degree with a major in finance from the University of British Columbia in Canada.

Jebsen Hans Michael B.B.S.

Non-Executive Director

S

Board appointment Mr. Jebsen was appointed a Non-Executive Director in 1994 and is aged 62.

Competencies and experience Mr. Jebsen is chairman of Jebsen and Company Limited as well as a director of other Jebsen Group companies worldwide. He is also an independent non-executive director of The Wharf (Holdings) Limited. Mr. Jebsen currently holds a number of public offices, namely, chairman of the Asian Cultural Council Hong Kong, chairman of the Advisory Council of the Business School of The Hong Kong University of Science and Technology, a trustee of World Wide Fund for Nature Hong Kong and a member of Board of Trustees of Asia Society Hong Kong Center, Hong Kong-Europe Business Council of the Hong Kong Trade Development Council as well as Advisory Board of the Hong Kong Red Cross. Since 2015, he has also been a member of the Operations Review Committee of the Independent Commission Against Corruption. Mr. Jebsen was awarded the Bronze Bauhinia Star by the Government of the Hong Kong Special Administrative Region in 2001, made a Knight of the Dannebrog by receiving the Silver Cross of the Order of Dannebrog by H. M. The Queen of Denmark in 2006, was awarded the Merit Cross of the Order of the Merit of the Federal Republic of Germany in 2009, received the title "Hofjægermester" by H. M. The Queen of Denmark in January 2011 and was awarded the Knight of 1st Class of the Order of Dannebrog, Denmark in 2014.

Qualifications Mr. Jebsen was awarded Doctor of Business Administration honoris causa of The Hong Kong University of Science and Technology.

Committee Mr. Jebsen was a member of the Strategy Committee.

A Audit and Risk Management Committee
R Remuneration Committee
N Nomination Committee
S Strategy Committee

Non-Executive Directors (continued)

Lee Anthony Hsien Pin
Non-Executive Director

A

Board appointment Mr. Lee was appointed a Non-Executive Director in 1994 and is aged 61.

Competencies and experience Mr. Lee is a director and substantial shareholder of the Australian-listed Beyond International Limited, principally engaged in television programme production and international sales of television programmes and feature films. He is also a non-executive director of Television Broadcasts Limited. Mr. Lee is a member of the founding Lee family and a director of Lee Hysan Company Limited, a substantial shareholder of the Company. He is the brother of Ms. Lee Irene Yun-Lien, Chairman.

Qualifications Mr. Lee received a Bachelor of Arts Degree from Princeton University and a Master of Business Administration Degree from The Chinese University of Hong Kong.

Committee Mr. Lee is a member of the Audit and Risk Management Committee.

Lee Chien
Non-Executive Director

N S

Board appointment Mr. Lee was appointed a Non-Executive Director in 1988 and is aged 65.

Competencies and experience Mr. Lee is a private investor and a non-executive director of Swire Pacific Limited and a number of private companies. He is a member of the founding Lee family and a director of Lee Hysan Company Limited, a substantial shareholder of the Company. Mr. Lee is a Council member of The Chinese University of Hong Kong and St. Paul's Co-educational College and a Trustee Emeritus of Stanford University. He is also a director of Stanford Health Care and CUHK Medical Centre.

Qualifications Mr. Lee received a Bachelor of Science Degree in Mathematical Science, a Master of Science Degree in Operations Research and a Master of Business Administration Degree from Stanford University.

Committees Mr. Lee is a member of the Nomination Committee and was a member of the Strategy Committee.

Lee Tze Hau Michael
Non-Executive Director

R

Board appointment Mr. Lee joined the Board in January 2010, having previously served as a Director from 1990 to 2007. He is aged 57.

Competencies and experience Mr. Lee is currently a director of Oxer Limited, a private investment company. He is also an independent non-executive director of Chen Hsong Holdings Limited, Trinity Limited; and a Steward of The Hong Kong Jockey Club. He was previously an independent non-executive director of Hong Kong Exchanges and Clearing Limited and an independent non-executive director and chairman of OTC Clearing Hong Kong Limited. Mr. Lee was also a member of the Main Board and Growth Enterprise Market Listing Committees of The Stock Exchange of Hong Kong Limited. Mr. Lee is a member of the founding Lee family and a director of Lee Hysan Company Limited, a substantial shareholder of the Company.

Qualifications Mr. Lee received his Bachelor of Arts Degree from Bowdoin College and his Master of Business Administration Degree from Boston University.

Committee Mr. Lee is a member of the Remuneration Committee.

A Audit and Risk Management Committee
R Remuneration Committee
N Nomination Committee
S Strategy Committee

Senior Management

Lui Kon Wai Ricky MBA, MCIOB

Chief Operating Officer

Mr. Lui joined Hysan as the Group's Chief Operating Officer in December 2016. He assists the Chairman in translating and executing the Group's strategy and vision into operational and financial attainment. Mr. Lui also drives the Group's business growth, development and investment and serves as a director of certain Hysan subsidiaries. Mr. Lui has over 25 years of experience as a senior executive in the property industry globally, covering acquisitions, development and asset management for residential, office, retail and large scale mixed use developments in Hong Kong, mainland China and overseas. He is aged 53.

Hao Shu Yan Roger BBA (Hons), CPA, ACA, ACCA

Chief Financial Officer

Mr. Hao is responsible for the Group's financial control, treasury and information technology functions, and serves as a director of certain Hysan subsidiaries. He joined the Group in 2008. Mr. Hao accumulated extensive experience in auditing, financial management and control while holding senior positions in multinational corporations. He is aged 53.

Choy Man Wai Kitty BEcon, MSc, MBA

Director, Retail

Ms. Choy is responsible for the Group's retail portfolio and asset management strategies, and serves as a director of certain Hysan subsidiaries. She joined the Group in 2000 and prior to joining Hysan, Ms. Choy held a supervisory position at a major property development company. She is aged 46.

Lam Tze Pon Tiffany B.Soc.Sc. (Information Management)

Director, Marketing and Customer Experience

Ms. Lam is responsible for formulation of the Group's marketing strategies and leads marketing and customer experience operations, and serves as a director of certain Hysan subsidiaries. She joined the Group in January 2018. Prior to joining the Group, Ms. Lam accumulated extensive experience in retail and brand management in the premium luxury sector and the hospitality industry while holding senior positions in international retail corporations. She is aged 47.

Yip Mo Ching Jessica BSc (Surveying), MBA, MRICS, MHKIS, RPS

Director, Office and Residential

Ms. Yip is responsible for managing the office and residential portfolio of the Group, and serves as a director of certain Hysan subsidiaries. Prior to joining the Group in 2012, Ms. Yip fulfilled various roles in international consultancies, occupiers and developers. She has extensive experience in the real estate industry. She is aged 42.

Corporate Governance Report

Governance Overview

Leadership

BOARD GOVERNANCE

- Governance structure (see "Governance Framework" section on page 62)
- Board of Directors Mandate
- List of Matters Reserved for the Board Decisions
- Roles and Responsibilities of Non-Executive Directors

BOARD COMPOSITION

- 5 INEDs and 4 NEDs
- All Directors are appointed with a specific term of 3 years and are subject to rotation
- Diverse skills, knowledge and experience

CORPORATE STRATEGY

- Set strategy
- Oversee overall governance, financial performance and sustainable development of the Group (see this "Governance Overview" section on pages 64 to 65)

Effectiveness

EVALUATION

- Formal board evaluation process via an electronic platform. The Board discusses the findings in detail at its meetings (see "Board Evaluation 2018" section on page 69)

INFORMATION & SUPPORT

- Good information flow between the Board and the management
- Access to independent professional advice and the company secretary

DIVERSITY

- Diversity Policy
- Diversity of skills and expertise (see "Balance, Diversity and Skills" section on page 69)

COMMITMENT

- All Directors are committed to devote sufficient time and attention to the Company's affairs (see "Board Size, Composition and Appointments" on page 65)

INDEPENDENCE

- Meetings of Non-Executive Directors without the Executive Director(s) or Board members related to the founding Lee family

CONTINUOUS PROFESSIONAL DEVELOPMENT

- Directors receive various trainings and development programmes to refresh their skills and knowledge and to keep up to date with current developments

THE ROLE OF THE COMPANY SECRETARY

- Review and implement corporate governance practices
- Provide advice and support to Directors
- Keep Directors updated on legislative, regulatory and governance matters

Accountability

BOARD COMMITTEES

- 3 governance-related Board Committees have been established
- Board Committees report to the Board (see "Audit and Risk Management Committee Report" on pages 80 to 84, "Remuneration Committee Report" on pages 85 to 93 and "Nomination Committee Report" on pages 94 to 96)

MANAGEMENT PROCESS

- Day-to-day management by Executive Committee
- Governance framework includes a number of executive and advisory groups (see this "Governance Overview" section on pages 64 to 65)

RISK MANAGEMENT AND INTERNAL CONTROL

- Review and monitor risk management process
- Assess effectiveness of internal controls
- Risk Management and Internal Control Report (see pages 98 to 105)

FINANCIAL REPORT AND AUDITORS

- Independent Auditor's Report (see pages 117 to 120)
- Internal Audit function
- External Auditor appointment

Engagement

CONSTRUCTIVE USE OF GENERAL MEETINGS

- Accessible AGM
- Committee Chairmen available at AGM to answer questions (in person or via dial-in)
- Notice is sent out more than 20 business days before each meeting (this exceeds the requirement under the Corporate Governance Code)

DIALOGUE WITH SHAREHOLDERS

- Enhance shareholder communication by electronic channels
- Organise shareholders' visits for understanding the Group, its portfolio, history and sustainability activities and other business areas

COMMUNICATION CHANNELS WITH STAKEHOLDERS

- Teleconferences and webcasts for analysts and media briefing
- Investment community communications including roadshow
- Publication of financial reports, announcements, circulars and press releases
- Company's website

Beyond Corporate Governance Compliance

Hysan embraces strong governance as the foundation for delivering its strategic objective of achieving consistent and sustainable performance. During the year of 2018, Hysan continued to comply fully with the requirements of the provisions contained in the Corporate Governance Code (the "Corporate Governance Code") set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Furthermore, Hysan remained committed to the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 of the Listing Rules.

The following are among the major areas in which Hysan's system of corporate governance practices exceed the Corporate Governance Code.

Exceed Corporate Governance Code Provisions	Best Practices in Corporate Governance at Hysan
✓	Formal Corporate Governance Guidelines* since 2004 and further enhanced in 2018
✓	Formal Board of Directors Mandate* and a detailed List of Matters reserved for the Board Decisions* provide a clear division of roles established between the Board and management
✓	Formal criteria and requirements* established for Non-Executive Director appointments with expected time commitment. We issue formal appointment letter for Non-Executive Directors
✓	Board evaluation of its own performance and that of its committees by completion of questionnaires through an electronic platform. Directors' feedback was analysed and discussed in meetings
✓	Code of Ethics* applicable to all staff and Directors since 2005
✓	A separate Whistleblowing Policy* since 2016; an independent third party is engaged as the whistleblowing channel, which directly reports to the Audit and Risk Management Committee
✓	Corporate Disclosure Policy* since 2013 and further enhanced in 2019. A Disclosure Committee conducts regular assessment of inside information, guides and promotes timely and accurately disseminated disclosure of inside information and stakeholder communications
✓	Auditor Services Policy* for the engagement of auditors and further enhanced in 2018 and 2019
✓	Fraud handling policy and procedures to control and aid in the detection and prevention of fraud

Exceed Corporate Governance Code Provisions	Best Practices in Corporate Governance at Hysan
✓	Publication of separate Corporate Governance Report, Audit and Risk Management Committee Report, Remuneration Committee Report, Nomination Committee Report, Strategy Committee Report and Risk Management and Internal Control Report
✓	More than 20 clear business days' notice for the AGMs, which include a detailed business review
✓	All voting at AGMs conducted by poll since 2004
✓	Early announcement of audited financial results within 2 months and publication of Annual Report within 3 months after the financial year-end
✓	Continuous enhancement of shareholder communications, including introduction of shareholder visits since 2016
✓	Adopted 10% limit of and a discount of not more than 10% on the share issue price to issue additional shares under general mandate in 2018 AGM
✓	Arrangements have been made since December 2015 to ascertain shareholders' preferences as to the means of receiving corporate communications, with the aim of protecting the environment and enhancing the use of the Group's corporate website as a means of shareholder communications
✓	Proactive invitation to major nominee companies by Hysan to forward communication materials to the ultimate beneficial shareholders at the Group's expense
✓	Confirmation from senior management to the Audit and Risk Management Committee as verification compliance
✓	Additional assurance from Internal Audit on the review of continuing connected transactions

* Detailed policies/terms of reference are available on the Company's website: www.hysan.com.hk/governance.

In an effort to reduce consumption of resources from printing and distributing hard copies, the Hysan Sustainability Report has been prepared for electronic distribution and is made available for public viewing on Hysan's website: www.hysan.com.hk. Limited copies are printed and distributed, primarily to our shareholders. A summary of the Sustainability Report is provided on pages 106 to 107 of this Annual Report.

Governance Framework

Hysan operates within a clear and effective governance structure.

The Board regularly assesses and enhances its governance framework, practices and principles according to developments in regulatory regimes and international best practices, as well as the Company's needs.

The following are Hysan's key governance-related guidelines:

- Corporate Governance Guidelines
- Board of Directors Mandate
- Roles and Responsibilities of Non-Executive Directors
- List of Matters Reserved for the Board Decisions
- Terms of Reference of the various corporate governance-related Board Committees
- Diversity Policy
- Nomination Policy
- Auditor Services Policy
- Code of Ethics for Directors and Employees
- Corporate Disclosure Policy
- Whistleblowing Policy
- Procedures for Shareholders to Convene General Meetings/Put Forward Proposals
- Shareholders Communications Policy

Detailed policies/terms of reference are available on the Company's website: www.hysan.com.hk/governance.

Hysan's senior management and other department heads attending Lee Garden Three grand opening

Leadership

Governance and Management Structure

The Board is collectively responsible for the long-term success of the Group and for its leadership, strategy planning, control and risk management, culture, values, corporate governance and financial performance. It is governed by a formal **Board of Directors Mandate** (see the Company's website at www.hysan.com.hk/governance for details).

The Board has an Audit and Risk Management Committee, Remuneration Committee and Nomination Committee. The Committees enable the Board to operate effectively and ensure a strong governance framework for decision-making. The Audit Committee was renamed as Audit and Risk Management Committee with effect from 21 February 2019 to reflect and emphasise its important role of assessing and making recommendations on the Group's risk appetite, profile and tolerance. The Board had also resolved to assume the role of the Strategy Committee and incorporate the Company's strategy discussions as an integral part of the Board meetings. Accordingly, the Strategy Committee was discontinued and assumed by the Board with effect from 1 January 2019. This further facilitates and enables the full Board to actively involve and participate in setting and reviewing longer-term directional strategy for the growth of the Group.

Day-to-day management of the Group is delegated to the Executive Committee. The Board retains control of the key decisions and has identified certain "reserved matters" that only it can approve. The **List of Matters Reserved for the Board Decisions** is reviewed annually. Executive Committee members include the Executive Director(s), the Chief Operating Officer, Chief Financial Officer, and other members as may be appointed by the Board from time to time.

"I worked at the Lee Gardens Hotel group after graduating from university. When the hotel was about to close, I started to gather things here and there. People call me the Lee Gardens historian because I have all this memorabilia. This love and appreciation of artefacts and preserving the past were inherited from my father, who founded the Bei Shan Tang Foundation, and was an ardent supporter of Chinese culture, heritage and the arts. The Foundation is named after The Bei Shan Poets Society, a group of literary and art scholars who were invited by my grandfather, Lee Hysan to host their intellectual gatherings at Lee Gardens in the 1920s. The view from Lee Gardens offered sweeping views of the harbour, which was often a source of inspiration for the poets."

Chien Lee
Non-Executive Director of Hysan and
Chairman of Bei Shan Tang Foundation

Hysan's strong management governance framework includes a number of executive and advisory groups, amongst others, 3 governance-related management level committees, namely the Risk Management Committee, the Sustainability Committee and the Disclosure Committee. To refresh the Group's strategy and overall capabilities to address the business trends and next generational shifts, the Board has appointed Li Xinzhe Jennifer as an Advisor to the Board and a Next Generation Innovation Panel to advise the Board accordingly.

THE BOARD

Collectively responsible for long-term success of the Group
Oversees overall governance, financial performance and sustainable development of the Group

Leadership	Strategy Planning	Risk Management and Internal Control	Culture and Values
Provides leadership and direction for the business of the Group	Sets strategy and oversees its implementation	Ensures only acceptable risks are taken	Focuses on the long-term sustainability of business

BOARD COMMITTEES

AUDIT AND RISK MANAGEMENT COMMITTEE

- Reviews risk management and internal control systems
- Monitors internal and external auditors
- Oversees financial reporting
- Assesses and makes recommendations on the Group's risk appetite, profile and tolerance

REMUNERATION COMMITTEE

- Sets remuneration policy for Executive Director(s) and senior management
- Determines Executive Director(s)' and senior management's remuneration and incentives

NOMINATION COMMITTEE

- Recommends Board appointments
- Reviews Board structure, composition and diversity
- Assesses independence of Independent Non-Executive Director
- Oversees succession planning

EXECUTIVE COMMITTEE

- Operates daily business of the Group under the Board's delegation. It comprises Executive Director(s), Chief Operating Officer, Chief Financial Officer and other senior management of the Group as delegated from time to time
- Assists the Board and the Company in managing the business, operational and financial performance of the Group

MANAGEMENT COMMITTEES

RISK MANAGEMENT COMMITTEE

- Senior management's forum for reviewing and discussion of risks, controls, and mitigating measures

SUSTAINABILITY COMMITTEE

- Reports and co-ordinates the environmental, community and charitable activities
- Assists the Company in overseeing the sustainability and governance of the Group
- Sets targets and objectives and monitors progress

DISCLOSURE COMMITTEE

- Considers issues relating to disclosure of inside information
- Ensures disclosure requirements are met
- Ensures appropriate records are maintained

ADVISOR TO THE BOARD	• Invited to advise the Board since 2018 • Provides advice and guidance on the Group's overall capabilities and strategic directions • Helps the Company to capitalise on opportunities arising from fast-changing customer/tenant behavior
NEXT GENERATION INNOVATION PANEL	• Invited to advise the Board in 2019 • Informs and refreshes the Group's overall capabilities to address, incorporate and/or manage the trends, key innovations, revolutions and generational shifts that may influence and disrupt the Company's operations and development • Members of the Panel will be young international entrepreneurs and accomplished next generation leaders in the fields of retail, mainland China business, media, technology, etc

Board Size, Composition and Appointments

The Board reviews its structure, size, composition and diversity from time to time; the last review was conducted in November 2018. Through the annual evaluation process in which the Board reviews the performance of the Directors to ensure they are contributing to the Board in a manner that allows them to perform their responsibilities to the Company and that they are spending sufficient time doing so, the Board was satisfied that the Directors had a strong commitment to the Company and positively contributed to the Board through their participation in the Company's affairs and the Board's discussions and decisions, as reflected in their high attendance record on the Board and Committee meetings during the year. To ensure that our Directors have spent sufficient time on the affairs of the Company, the Directors disclose to the Company once a year the details of the offices held in Hong Kong or overseas listed public companies and other significant commitments, as well as an indication of the time involved.

As at 31 December 2018, there were 10 Directors on the Board: the Chairman and 9 Non-Executive Directors (including 5 Independent Non-Executive Directors). Lee Irene Yun-Lien is currently the executive Chairman. In addition to her role in leading the Board, she advises, supports and coaches the management team, particularly regarding the long-term strategic development of the Group and management matters that drive shareholder value.

Wong Ching Ying Belinda was added as an Independent Non-Executive Director, effective from 18 December 2018 in accordance with the Company's Diversity Policy and Nomination Policy. Wong Ching Ying Belinda is the chief executive officer of Starbucks China and has extensive experience leading different organisations across the Greater China and the Asia Pacific regions. The appointment will further strengthen the Board.

Non-Executive Directors are engaged by formal letters of appointment with a specific term of 3 years, and they commit to Hysan that they will be able to give sufficient time and attention to meeting the high expectations placed upon them. They are subject to re-election at the first AGM following their appointment. Every Director will be subject to retirement by rotation at least once every 3 years under the Company's Articles of Association. Retiring Directors are eligible for re-election at the AGM at which they retire. There is no cumulative voting in Director elections. The election of each candidate is executed through a separate resolution.

Churchouse Frederick Peter, Jebsen Hans Michael, Lee Anthony Hsien Pin, Lee Chien and Wong Ching Ying Belinda will retire at the forthcoming AGM to be held on 16 May 2019. All of them being eligible, they would offer themselves for re-election. Details with respect to the candidates standing for re-election as Directors are set out in the AGM circular to shareholders. None of these Directors has a service contract with the Company or any of its subsidiaries that is not determinable by the Group within 1 year without payment of compensation (other than statutory compensation).

Board Activities during 2018

Key activities

STRATEGY

- Discussed the Group's strategies and emphasised the continuity of the Company's vision and mission, focusing on the impact of global and Hong Kong changes and developments, and how the Group's business model may be affected
- Reviewed the Group's position and all the challenges the Group will be facing, the Company's culture, the impact of technology, changes in consumer behaviours as well as the resources and skills the business may require in future
- Discussed business plans, as well as longer-term directional strategy for the growth of the Group
- Reviewed the Group's performance versus budgets
- Considered and approved the Group's investment and funding strategy

RISK MANAGEMENT AND INTERNAL CONTROL

- Reviewed the Group's risk registers and assessed the risks with action plans
- Reviewed the effectiveness of Hysan's risk management and internal control framework
- Reviewed an enhanced company-wide regulatory compliance and governance framework and policy
- Reviewed group-wide privacy compliance
- Considered and evaluated the enterprise-wide cyber security assessment carried out by Deloitte

ACCOUNTABILITY

- Considered and evaluated the enterprise-wide cyber security assessment carried out by Deloitte
- Discussed the outcome of the Board evaluation and effectiveness review, and agreed improvement opportunities
- Reviewed key corporate governance related reports
- Received and considered regular meeting reports from Chairmen of the Audit and Risk Management Committee, Remuneration Committee, Nomination Committee and Strategy Committee

GOVERNANCE AND IMPROVEMENTS

- Reviewed and approved an enhanced "Corporate Governance Guidelines"
- Reviewed and approved an enhanced "Diversity Policy"
- Reviewed and approved an enhanced "Auditor Services Policy"
- Reviewed and approved an enhanced "Nomination Policy"
- Reviewed the recent developments in corporate governance and received and considered key legal and regulatory updates
- Reviewed and evaluated the fees for Directors with an independent external consultant
- Reviewed the List of Matters Reserved for the Board Decisions

PEOPLE AND LEADERSHIP

- Added a new Independent Non-Executive Director, Wong Ching Ying Belinda, which was strong addition to the Board
- Reviewed the Board structure, size, composition and diversity, as well as the "independence" of Directors
- Enhanced Terms of Reference of Nomination Committee, Remuneration Committee and Audit and Risk Management Committee
- Reviewed the development of people and compensation for the senior management and other department heads
- Considered the set up and composition of the Next Generation Innovation Panel, which was established to refresh capabilities and support the strategic directions of the Board
- Sought to record, more formally, the Sustainability Committee at management level, which was set up to support the Company's sustainability matters

FINANCIAL AND OPERATIONAL PERFORMANCE

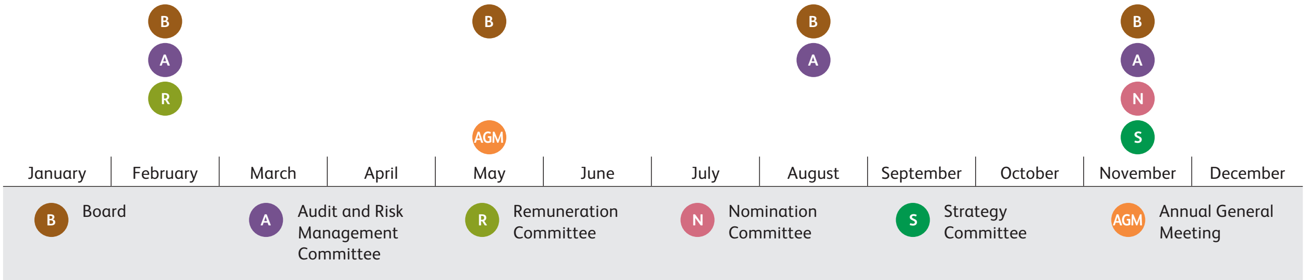
- Considered the financial performance of the business and approved the annual budget
- Reviewed the interim and annual results, approved the interim and annual reports
- Reviewed and approved the funding and treasury investment plan
- Reviewed and discussed financial forecasts and analyst feedback
- Declared dividends
- Reviewed operating results and regular updates for the Group's core business (Office, Retail, Residential and Property Development segments)
- Formalised the "Dividend Policy"

Meetings

The Board meets regularly and there is an annual cycle of topics to be considered, including business and financial updates. Each Committee provides a summary of business discussed to the Board.

Employees below Board level are invited to present to the Board on operational topics during the year. Non-Executive Directors have direct and open access to employees below Board level.

BOARD AND COMMITTEE MEETINGS IN 2018



ATTENDANCE AT MEETINGS

The following table shows Directors' attendance at the meetings:

● Attended ☎ Attended by tele-conference ○ Attended by alternate ◆ Attended the meetings (or part of meetings) as invitee

Directors	Meetings Held / Attended				
	Board	Audit and Risk Management Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
	(Total: 4) *(Note 1)*	(Total: 3) *(Note 4)*	(Total: 1)	(Total: 1)	(Annually) *(Note 4)*
Executive Director					
Lee Irene Yun-Lien	● ● ● ●	◆ ◆ ◆	◆ *(Note 3)*	●	●
Independent Non-Executive Directors					
Churchouse Frederick Peter	● ● ● ●	● ● ●	N/A	N/A	●
Fan Yan Hok Philip	● ● ● ●	● ☎ ●	●	●	●
Lau Lawrence Juen-Yee	● ● ● ●	N/A	N/A	●	●
Poon Chung Yin Joseph	● ● ● ●	● ● ●	●	●	●
Wong Ching Ying Belinda *(Note 2)*	N/A	N/A	N/A	N/A	N/A
Non-Executive Directors					
Jebsen Hans Michael	● ● ○ ●	N/A	N/A	N/A	●
Lee Anthony Hsien Pin	● ● ● ●	● ● ●	N/A	N/A	●
Lee Chien	● ● ● ●	N/A	N/A	●	●
Lee Tze Hau Michael	● ● ☎ ●	N/A	●	N/A	●

Notes:
1 In November 2018, a Board and Strategy Committee meeting was held to discuss the Group's business plan and long-term directional strategy.
2 Wong Ching Ying Belinda was appointed as a new Independent Non-Executive Director with effect from 18 December 2018.
3 Excused from the session to discuss the Executive Director's own compensation package.
4 Representatives of the external auditor participated in every Audit and Risk Management Committee meeting and the AGM.

Effectiveness

Board Evaluation 2018

This year's review of the Board's effectiveness was conducted internally and was led by the Chairman with the support of the Company Secretary. The evaluation required each Director to complete anonymously an online questionnaire that focused on matters such as Board's performance, the nature and content of Board meetings. The survey encouraged the Directors to provide comments or enabled them to raise any concerns.

The Chairman, supported by the Company Secretary, collated the output of the questionnaires and formulated a detailed report. The report was prepared based on the collective comments from all the Directors, and reports from the Audit and Risk Management Committee, Remuneration Committee, Nomination Committee and the then Strategy Committee. These reports were considered and discussed by the Board.

The conclusion from this year's evaluation was that the Board and its Committees continued to operate to a high standard, and worked effectively. The results overall ranged from positive to very positive, and there were no specific concerns raised by any of the Directors to the Chairman or anonymously through the online questionnaires. This year, the evaluation also addressed the level of strategic debates and oversight of the Group's performance and its management, and was also highly rated. Other areas that were assessed as being particularly strong included the Board dynamics, culture and integrity in the Board room, the Board's collective judgement and overall performance, Board information and the involvement of Directors in the discussions.

As with every high performing Board, the Directors continue to look for areas of improvement. The Board will ensure that its meeting agendas are forward-looking in terms of investment opportunities and strategic development. The Chairman will continue to lead the process of building on current strengths of the Board and innovating further to build on the points outlined above, with the support from the Directors.

Independent Advice

When occasions arise where Directors feel that they require independent professional advice in order to fulfil their obligations as Board members, this advice may be obtained at the Company's expense as stated in our Corporate Governance Guidelines.

Balance, Diversity and Skills

Hysan recognises the importance of diversity among its Board members, which not only contributes to the effectiveness of the Board but also to the success of the Group's business.

Our Non-Executive Directors (including 5 Independent Non-Executive Directors) have diverse backgrounds in areas such as economics, finance, business management, professional practices, and property investment. Biographies of the Directors can be found on pages 52 to 56 as well as on the Company's website at www.hysan.com.hk/about-us.

Recognising the vitality of diversity of the Company, the Board has adopted a separate Board Diversity Policy in 2016, which was strengthened and enhanced as the Diversity Policy applying to the Group in 2018. The Board remains committed to ensure that the selection of candidates for Board appointments is based on a range of diverse perspectives, including gender, age, cultural/ educational and professional background, skills, knowledge and experience. Decisions with regard to Board appointments are based on merit balanced against the contributions that a prospective candidate will bring to the Board. During the year, the Board adopted a separate Nomination Policy to emphasise our commitment on transparent nomination process.

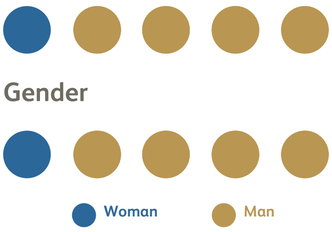
The Board is also committed to strengthening diversity across the Group. Similar considerations are used when recruiting and selecting key management and other personnel across the Group's operations. For details on our hiring practices, please refer to our Sustainability Report.

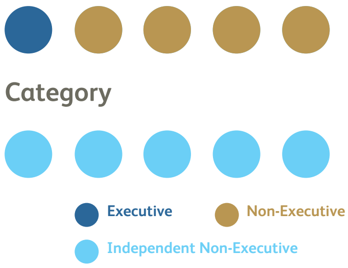
Our 9 Non-Executive Directors are from diverse and complementary backgrounds. The valuable experience and expertise they bring to our business are critical for the long-term growth of the Group:

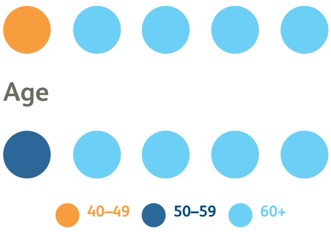
Skills/ Experience	Summary	Combined
Strategy	Experience in defining strategic objectives, assessing business plans and driving execution in large and complex organisations.	
Risk Management	Experience in anticipating and identifying key risks to the organisation and monitoring the effectiveness of risk management frameworks and controls.	
Financial Services and Investment	Experience in the financial services industry or experience in overseeing financial transactions and investment management.	
Financial Acumen	Understand financial drivers of the business, and experience in implementing or overseeing financial accounting, reporting and internal controls.	
Property Investment	Experience as a senior executive in another major company in property investment, development or facilities management, or related industry.	
Customer and Retail	Experience as a senior executive in a major retail, customer products, services or distribution company.	
Governance	Experience in and commitment to adhere to exceptional corporate governance standards.	
People and Culture	Experience in monitoring a company's culture, overseeing people management and succession planning, and setting remuneration frameworks.	
International and China	Experience in international and mainland China economics and relations.	

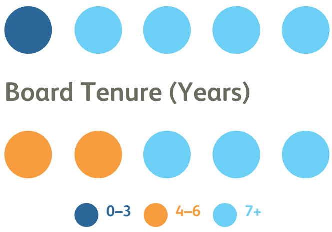
Legend ● Extensive ● Moderate

The Board | 10



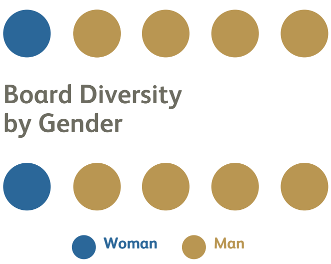






(Directors' full biographies, including relationships among members of the Board, are set out in pages 52 to 56 and are also available on the Company's website: www.hysan.com.hk/about-us)

The Board | 10



Key Operational Management | 12

* Key operational management is defined as the 12 heads of departments/units of the Group, but does not include the Executive Director who also maintains a management/supervisory role for operations.

Independence of Directors

Hysan is a listed company with a major shareholder family. The Board remains committed to maintaining independence.

- The Board has policies and processes in place to avoid conflicts of interest or perception of conflicts of interest in compliance with the Hong Kong Companies Ordinance. Board members are reminded every half year of this requirement through an explanatory note from the Company Secretary.
- Non-Executive Directors hold separate discussion sessions every year, **without** the presence of Executive Director(s) or Board members related to the founding Lee family. There were 2 separate discussions in 2018.
- Any dealings with persons and entities regarded as "connected transactions" with the Group under the Listing Rules are subject to the approval of the full Board, as described in the **List of Matters Reserved for the Board Decisions**. "Exempted transactions" as defined by the Listing Rules' disclosure requirements must also be reported to the full Board after management approval.
- The Company has clear **Corporate Governance Guidelines**, Directors are considered to be independent only if they are free from any business or other relationship that may interfere with the exercise of their independent judgment.

During the reporting year, the Nomination Committee carried out a detailed review of the directors' independence and was satisfied that each of the 5 Independent Non-Executive Directors was independent at the time of review.

Checks and Balances

"Connected Transactions" with related persons subject to full Board decision

This is covered in our **List of Matters Reserved for the Board Decisions**. The relevant requirements are more stringent than those under the Listing Rules.

Appointment of 5 Independent Non-Executive Directors with diverse backgrounds

5 Independent Non-Executive Directors have been drawn from diverse backgrounds, including economics, finance, business management, professional practices and property investment.

Clear "independence" standards for individual Directors

These are laid down in our **Corporate Governance Guidelines**.

Detailed annual review of independence of individual Directors

The Nomination Committee carries out a detailed review of Director's independence annually.

Independence Status

Name	Management	Independent	Not Independent	November 2018 Review – Reason for Independence Status
Churchouse Frederick Peter		✓		No business or other relationships with the Group or management that will affect independence
Fan Yan Hok Philip		✓		No business or other relationships with the Group or management that will affect independence
Jebsen Hans Michael			✓	
Lau Lawrence Juen-Yee		✓		No business or other relationships with the Group or management that will affect independence *(Notes 1 & 3)*
Lee Anthony Hsien Pin			✓	
Lee Chien			✓	
Lee Irene Yun-Lien	✓			
Lee Tze Hau Michael			✓	
Poon Chung Yin Joseph		✓		No business or other relationships with the Group or management that will affect independence
Wong Ching Ying Belinda		✓		No business or other relationships with the Group or management that will affect independence *(Notes 2 & 3)*

Notes:
1 Lau Lawrence Juen-Yee's spouse is a partner with KPMG China and the Managing Partner in Hong Kong. KPMG is a tenant of the Group and provides taxation services principally as tax representative of the Company and certain subsidiaries, which are routine services in nature. Mrs. Lau has not been involved in any business negotiations with the Group, or in the provision of any services, and will refrain from doing so.
2 Wong Ching Ying Belinda was appointed an Independent Non-Executive Director, effective 18 December 2018. Ms. Wong is also a director of certain entities of Starbucks Coffee Company. Starbucks Hong Kong is a tenant of the Group. Starbucks China is also a tenant of a commercial complex located in Shanghai, the People's Republic of China owned by an associate of the Company. The revenue or profit derived from those leases, either directly as retail sector revenue or indirectly as share of results of an associate, are immaterial to the Group. During her term as Independent Non-Executive Director of the Company, Ms. Wong will abstain from voting on any Board resolution in relation to any business dealings with Starbucks group.
3 The Board and its Nomination Committee had assessed the independence of Professor Lau and Ms. Wong in light of the circumstances, including (i) their respective backgrounds, experiences, achievements, as well as characters; (ii) the nature of the Company's relationship with KPMG and Starbucks group and Mrs. Lau's and Ms. Wong's roles as described above; and concluded that their independence would not be affected.

Professional Development, Support and Training

The Board held several specific knowledge development sessions during the year, including a sharing session on the integration of commercial properties and the internet in China (presented by Li Xinzhe Jennifer, the Advisor to the Board), an interactive workshop on social media marketing and applications presented by a senior executive of a reputable pay-television and entertainment conglomerate, and a portfolio tour of our new Lee Garden Three led by senior management. One of the Board meetings was held off site at a co-working space for a lively exchange of ideas. Directors continued to receive regular reports facilitating greater awareness and understanding of the Group's business and the compliance regulatory updates.

Directors have expressed the view that the past year's trainings have been stimulating and very relevant. Directors have also indicated that there were adequate training opportunities.

When newly-appointed Directors join the Group, they would receive an induction briefing that would give them an understanding of the Group, its businesses and operations (including the major risks it faces). The induction briefing would include individual meetings with the Board Chairman, the Company Secretary and senior management, portfolio visits, and meetings with the Company's external advisers. Individual briefings would be arranged on topics such as Directors' responsibilities and overview of the Group's business. The Company has provided the new director Wong Ching Ying Belinda with a full and comprehensive induction on her appointment.

Directors' continuous professional development in 2018

Directors	Attending trainings organised by Hysan	Attending expert briefings / seminars / conferences organised by third parties relating to the business or directors' duties	Perusing legal, regulatory and industry related updates prepared by Hysan quarterly
Executive Director			
Lee Irene Yun-Lien	✓	✓	✓
Independent Non-Executive Directors			
Churchouse Frederick Peter	✓	✓	✓
Fan Yan Hok Philip	✓	✓	✓
Lau Lawrence Juen-Yee	✓	✓	✓
Poon Chung Yin Joseph	✓	✓	✓
Wong Ching Ying Belinda *(Note)*	N/A	N/A	N/A
Non-Executive Directors			
Jebsen Hans Michael	✓	✓	✓
Lee Anthony Hsien Pin	✓	✓	✓
Lee Chien	✓	✓	✓
Lee Tze Hau Michael	✓	✓	✓

Note: Wong Ching Ying Belinda was appointed an Independent Non-Executive Director, effective from 18 December 2018.

Ongoing development sessions were also arranged for the senior management and subsidiaries' directors to update their skills and knowledge as appropriate. Throughout the year, various seminars on regulatory obligations, compliance requirements and best practices and procedures were provided to the senior management and subsidiaries' directors. During the year, the Company Secretary also undertook appropriate professional training to update relevant skills and knowledge.

Hysan has a management trainee programme launched since 2017 to cultivate our future leaders, with the aim of developing our talent pipelines to meet our long-term business needs. More management trainees were recruited in 2018 to continue the pipeline.

Accountability

Board Committees in 2018

The Board has 3 governance-related Board Committees that provide effective oversight and leadership in accordance with the Group's Corporate Governance Guidelines, namely the Audit and Risk Management Committee, the Remuneration Committee and the Nomination Committee. Each Committee has access to independent professional advice and counsel as required, and each is supported by the Company Secretary. These committees report to the Board.

The terms of reference of the Audit and Risk Management Committee, the Remuneration Committee and the Nomination Committee have been updated, the highlights are set out in the respective reports of the Committees. Terms of reference and membership of all Board Committees are disclosed in full on the websites of the Company and the Stock Exchange. They are also available upon request to the Company Secretary.

Full details of the Committees' activities during the year are set out in their respective reports:

Audit and Risk Management Committee Report
on pages 80 to 84

Remuneration Committee Report
on pages 85 to 93

Nomination Committee Report
on pages 94 to 96

Strategy Committee Report
on page 97

Bjorn: "We've lived in Causeway Bay just across from the Lee Gardens for about 10 years, it's easy to get anywhere from here. There are shops, restaurants and people all the time – it feels like real Hong Kong. Everything for us revolves around the district. My kids go to the Football Club, Hong Kong Stadium, South China Athletic Club and it's all within walking distance."

Neena: "Causeway Bay is home."

Bjorn and Neena
Causeway Bay's residents

Engagement

Hysan is committed to maintaining an open dialogue with shareholders and providing them with the information they require to make sound investment decisions.

Accountability to Shareholders and Corporate Reporting

- Annual Report, Interim Report, press releases and announcements are disclosed in a timely manner.
- Shareholder enquiries can be made via the Investor Relations function by email to investor@hysan.com.hk.

Information online

- Key corporate governance policies, terms of reference of Board Committees, Group's financial reports, press releases and announcements are available on the Company's website.
- Shareholders have the option to receive corporate communications by electronic means. Hard copies of the Hysan website information are also available free of charge upon request to the Company Secretary.

Dynamic engagement with Shareholders

- Ongoing dialogue and meetings between Chief Operating Officer, Chief Financial Officer, and institutional investors, fund managers and analysts.
- Regular presentations or conference calls are made to analysts and investors.
- Results announcement presentations to analysts are also disseminated by webcasts.

Electronic Communication

- Since December 2015, shareholders can receive corporate communications via electronic means.
- Greater use of the Group's website is being made for our corporate communications.

Shareholders' Communication

- The Shareholders' Communication Policy recognises our commitment to provide our shareholders and the investment community with ready, equal and timely access to balanced and understandable information about the Company.

Provision of Sufficient and Timely Information

- The AGM notice, Annual Report, and financial statements are dispatched to shareholders more than 30 days prior to the AGM, exceeding the statutory requirement of 21 days.
- Comprehensive information is sent on each resolution to be proposed.

Voting

- Since 2004, we have conducted all voting at AGMs by poll.
- The poll is conducted by the Company's Registrar and scrutinised by the Group's auditors.
- Procedures for conducting the poll are explained at the general meeting prior to the taking of the poll.
- Poll results are announced and posted on the websites of both the Stock Exchange and the Company.

Shareholders' Visits

- The shareholders' visits are opportunities every year for the management to communicate with the shareholders, who gain insights into the Company's history, sustainable activities and other business areas.

Constructive Use of AGM

- AGMs act as a means of conducting a dialogue with private shareholders.
- Individual shareholders can put questions to the Chairman at the AGM.
- Board Committees Chairmen attend AGMs to respond to shareholders' questions.
- Since 2004, a business review session has been included in our AGMs. Topics at the last AGM included: the business environment in 2017, a review of business activities, and the Company's outlook for 2018.

Shareholder Communication via Nominee Companies

- Since 2005, we have been inviting major nominee companies to forward communication materials to shareholders at our expense.

Corporate Disclosure Policy

- The Group's Corporate Disclosure Policy provides guidance on the disclosure of material information to investors, analysts and media.
- This policy identifies the spokespersons and clearly outlines the responsibilities for communication with each stakeholder group.
- Details are available at the Company's website: www.hysan.com.hk/governance.

Shareholders' Rights under Articles of Association and Hong Kong Law

- A general meeting of shareholders can be convened by the Board or with a written request signed by shareholders holding at least 5% of the total voting rights of all the shareholders ("5% Shareholder").
- A 5% Shareholder may request to have resolutions passed by way of written resolution.
- Shareholders may put forward proposals for consideration at a general meeting.
- All requests shall state the general nature of the business to be dealt with at the meeting and deposited at the Company's registered office (49/F, Lee Garden One, 33 Hysan Avenue, Hong Kong. Attention: The Company Secretary).
- There are no limitations imposed on the right of non-residents or foreign persons to hold or vote on the Company's shares, other than those that would generally apply to all shareholders.
- Details of Procedures for Shareholders to Convene General Meetings/Put Forward Proposals are available on the Company's website.
- No changes have been made to our Articles of Association during the year.

Dividend Policy

- Hysan's longstanding policy is to provide stable ordinary dividends to shareholders.
- The ultimate pay out decision will be based on the Group's financial performance, future capital requirements, general economic and business conditions, etc.

Directors' Interests in Shares

As at 31 December 2018, the interests and short positions of the Directors in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), are set out below:

Aggregate long positions in shares and underlying shares of the Company

	Number of ordinary shares held					
Name	Personal interests	Family interests	Corporate interests	Other interests	Total	% of the total no. of issued shares *(Note a)*
Jebsen Hans Michael	60,984	–	2,473,316 *(Note b)*	–	2,534,300	0.242
Lee Chien	800,000	–	–	–	800,000	0.076
Lee Irene Yun-Lien	304,000	–	–	–	304,000	0.029

Notes:
(a) This percentage was compiled based on the total number of issued shares of the Company (i.e. 1,046,501,891 ordinary shares) as at 31 December 2018.
(b) Such shares were held through a corporation in which Jebsen Hans Michael was a member entitled to exercise no less than one-third of the voting power at general meeting.

Executive Director(s) of the Company have been granted share options under the Company's share option schemes adopted on 10 May 2005 (the "2005 Scheme") and 15 May 2015 (the "New Scheme") (details are set out in the section headed "Long-term incentives: Share Option Schemes" below). These constitute interests in underlying shares of equity derivatives of the Company under the SFO.

Aggregate long positions in shares of associated corporations

Listed below is a Director's interest in the shares of Barrowgate Limited ("Barrowgate"), a 65.36% subsidiary of the Company:

	Number of ordinary shares held			
Name	Corporate interests	Other interests	Total	% of the total no. of issued shares
Jebsen Hans Michael	1,000	–	1,000	10 *(Note)*

Note:
Jebsen and Company Limited ("Jebsen and Company") held a 10% interest in the total number of issued shares in Barrowgate through a wholly-owned subsidiary. Jebsen Hans Michael was deemed to be interested in the shares of Barrowgate by virtue of being a controlling shareholder of Jebsen and Company.

Apart from the above, no other interest or short position in the shares, underlying shares or debentures of the Company or any associated corporations as at 31 December 2018 were recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Director's securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standards set out in the Model Code throughout the year.

Directors' Interests in Contracts

During the year, certain Directors had interests, directly or indirectly, in contracts with the Group. These contracts constituted Related Party Transactions, Connected Transactions or Contracts of Significance under applicable accounting or regulatory rules (details are disclosed in the "Directors' Report").

Directors' Interests in Competing Business

The Group is engaged principally in the property investment, development and management of high quality investment properties in Hong Kong. The following Directors (excluding Independent Non-Executive Directors, in accordance with Listing Rules disclosure requirements) are considered to have interests in other activities (the "Deemed Competing Business") that compete or are likely to compete with the said core business of the Group, all within the meaning of the Listing Rules:

(i) Lee Irene Yun-Lien, Lee Anthony Hsien Pin, Lee Chien and Lee Tze Hau Michael are members of the founding Lee family whose range of general investment activities include property investments in Hong Kong and overseas. In light of the size and dominance of the portfolio of the Group, such disclosed Deemed Competing Business is considered immaterial.

(ii) Jebsen Hans Michael and his alternate, Yang Chi Hsin Trevor, hold the offices of directors in Jebsen and Company. Business activities of some of its subsidiaries include, inter alia, investment holding and property investment in both the People's Republic of China and Hong Kong. Mr. Jebsen is also a substantial shareholder of the companies.

Mr. Jebsen is an independent non-executive director of The Wharf (Holdings) Limited whose business includes, inter alia, property investment, development and management in both the People's Republic of China and Hong Kong.

(iii) Lee Chien is an independent non-executive director of Swire Pacific Limited whose business includes, inter alia, property investment and trading in Hong Kong, the People's Republic of China and the United States of America.

The Company's management team is separate and independent from that of the companies identified above. In addition, save and except Lee Irene Yun-Lien, the relevant Directors have non-executive roles and are not involved in the Company's day-to-day operations and management.

For the reasons stated above, and coupled with the diligence of the Group's Independent Non-Executive Directors and the Audit and Risk Management Committee, the Group is capable of carrying on its business independent of and at arm's length from the Deemed Competing Business.

The Board also has a process in place to regularly review and resolve situations where a Director may have a conflict of interest.

By Order of the Board
Lee Irene Yun-Lien
Chairman

Hong Kong, 21 February 2019

Audit and Risk Management Committee Report

Composition

Majority are Independent Non-Executive Directors

Committee Members

Poon Chung Yin Joseph* (Chairman)

Churchouse Frederick Peter*

Fan Yan Hok Philip*

Lee Anthony Hsien Pin

*Independent Non-Executive Director

Dear shareholder,

"The primary roles of the Audit and Risk Management Committee are to assist the Board in reviewing the risk management and internal control systems, monitoring internal and external auditors and overseeing the financial reporting process, as part of the overall strategy-setting of the Group. The Committee was renamed the "Audit and Risk Management Committee" instead of the "Audit Committee" in 2019 to reflect and emphasise its ongoing role of evaluating, overseeing and monitoring the Group's risk appetite, profile and tolerance.

Highlights

- Reviewed the adequacy and effectiveness of the Company's risk management and internal control systems
- Reviewed the Group's enterprise-wide cyber security assessment report and enhanced the Group's enterprise-wide cyber security compliance, policies and practices
- Assisted the Board in its oversight of the Group's risk management framework, through its functional implementation of the "three lines of defence" model
- Reviewed the Terms of Reference of the Audit and Risk Management Committee and Auditor Services Policy

Key responsibilities

- Overseeing the integrity of the Group's financial management and reporting processes
- Reviewing the major risks identified and ensuring that effective risk management and internal control systems are in place
- Reviewing the risk management and internal control framework
- Reviewing the relationship with the external auditor

Meetings Schedule

The Audit and Risk Management Committee held 3 meetings during the year. At the invitation of the Audit and Risk Management Committee, these meetings were also attended by the Board Chairman and members of management (including the Chief Operating Officer and the Chief Financial Officer). Pre-meeting sessions with external and internal auditors were held without management's presence. In 2019, the Audit and Risk Management Committee will hold an additional meeting (making a total of 4 meetings) to address the dynamic risks and enhance the risk management oversight function.

Roles and Authorities

- Oversee the Company's financial management and reporting processes and monitor the works carried out by the external auditor. In this process, management is responsible for the preparation of the Group's financial statements including the selection of suitable accounting policies. The external auditor is responsible for auditing and attesting to the Group's financial statements and evaluating the Group's system of internal controls in such regard. Formal statements of Directors' Responsibility for the Financial Statements are contained in "Financial Statements, Valuation and Other Information" of this Annual Report.
- Review the Company's risk management and internal control systems.
- Review reports on major risks the Group is facing.
- Review the adequacy of resources, qualifications and experience of staff of the Group's internal audit, accounting and financial reporting functions, as well as their training programmes and budget.
- Review the Group's Whistleblowing Policy. Under this policy, employees and related third parties who deal with the Group (e.g. consultants, contractors and suppliers) can raise concerns, in confidence or anonymously, about misconduct, malpractice or irregularities in any matters related to the Group. The Audit and Risk Management Committee ensures that the concerns raised are investigated and followed up as appropriate.
- Review the effectiveness of the Company's internal audit function.
- Review the Company's relationship with the external auditor.
- Report to the Board on its findings after each Audit and Risk Management Committee meeting.

Activities

Details on the meeting held in February 2018 were set out in the 2017 Annual Report.

From March 2018 to February 2019, the Audit and Risk Management Committee held 3 meetings to:

Financial Reporting

- Review and discuss with management and the external auditor, and recommend to the Board to approve, the unaudited financial statements for the first 6 months ended 30 June 2018; the audited financial statements for the year ended 31 December 2018 and the Independent Auditor's Report for the year ended 31 December 2018, prior to their publication based on the external auditor's review work and the following:
  - Discuss with the external auditor and internal auditor the scope of their respective review and findings.
  - Discuss with management significant parameters and judgments affecting the Group's financial statements, including valuation of investment properties as at 30 June 2018 and 31 December 2018 with the independent professional valuer, Knight Frank Petty Limited.
  - Review with both management and the external auditor the Key Audit Matters included in the Independent Auditor's Report for the year ended 31 December 2018.

Relationship with the External Auditor

- Review and consider the terms of engagement of the external auditor in respect of the 2018 final results (including 2018 annual audit, the related results announcement, and annual review of continuing connected transactions) and the annual update of the Group's MTN Programme.
- Review the audit progress report of the external auditor.
- Annually assess and declare satisfaction with the auditor's qualifications, expertise and services, including independence. In particular, it was satisfied that the auditor's independence and objectivity have not been impaired by reason of the provision of non-audit services. All services were pre-approved by the Audit and Risk Management Committee. Appropriate policies and procedures have been established to identify audit and non-audit services as well as prohibited non-audit services that impair the independence of the auditor. A rotation arrangement for the lead audit partner was also established and implemented by the auditor. The lead audit partner is required to comply with professional ethics and independence policies and requirements applicable to the work performed, as well as to issue an annual confirmation on the auditor's independence.

EXTERNAL AUDITOR'S SERVICES AND FEES

	2018 HK$ million	2017 HK$ million
Audit Services	**2.85**	2.66
Non-audit Services *(Note)*	**1.54**	0.99
Total	**4.39**	3.65

Note:
"Non-audit services" include agreed-upon-procedures reports, statutory compliance, regulatory or government procedures required to comply with financial, accounting or regulatory report matters. Specifically, these include reviews of interim financial statements, issue of assurance reports for continuing connected transactions, and reviews of financial information in connection with the annual updates of the Group's MTN Programmes, etc in 2017 and 2018. In 2018, the non-audit services also include the enterprise-wide cyber security assessment.

- Review and consider the 2019 audit service plan of the external auditor, and the terms of its engagement in respect of the 2019 interim results review.
- Recommend to the Board that the shareholders be asked to re-appoint Deloitte Touche Tohmatsu as the Group's external auditor for 2019.

Review of Risk Management and Internal Control Systems

- Assist the Board in its oversight of the Group's risk management framework through its functional implementation of the "second line of defence" and "third line of defence", protecting against and mitigating risks identified in the "first line of defence".

- Discuss with management the major risks the Group is facing.
- Review the Group's enterprise-wide cyber security assessment carried out by the independent team of Deloitte Touche Tohmatsu providing IT related assurance and risk management services. The assessment covered network architecture, cyber threat discovery exercise, cloud security management assessment, outsourcing management review, data management review and IT governance review, etc. This engagement assessed and evaluated the Group's enterprise IT security management, in order to identify the improvement areas and to provide recommendations.
- Review the treasury process.
- Review the special management reports on the Lee Garden Three constructions, property management incident management, and compliance of investment projects.
- Review the adequacy of resources, qualifications and experience of staff of the internal audit, accounting and financial reporting functions, and their training programmes and budget.
- Review the whistleblowing reports. No material issues were raised during the year.
- Review the inside information compliance framework and the enhanced Corporate Disclosure Policy.
- Review the legal and regulatory updates/trends that may affect the Group and their implications.
- Review 2018 annual risk management and internal control systems based on:
  - reports of the Internal Audit on the review of the Company's continuing connected transactions for the year ended 31 December 2018, as well as the adequacy and effectiveness of the related internal control procedures
  - regular reports by management of major risks, and special reports on selected major risk items detailed above
  - regular reports of the Internal Audit, including status of implementation of its recommendations
  - certification and confirmation of controls effectiveness by management, covering financial, operational, compliance controls, risk management and internal controls, noting the adoption of a control self-assessment questionnaire across the operating departments
  - confirmation from the external auditor that it had not identified any control weaknesses in respect of the Group's financial reporting cycle during the course of its audit.

The Audit and Risk Management Committee was satisfied as to the adequacy and effectiveness of the Company's risk management and internal control systems (including the adequacy of resources, qualifications and experience of staff of the Group's accounting, financial reporting and internal audit functions, and their training programmes and budget). No significant areas of concern that might affect financial, operational, compliance controls, internal audit, risk management and internal controls functions were identified.

Internal Audit

- Review the internal audit plan, any matters identified as a result of internal audits, and management responses to audit reports issued during the year; and the progress made in implementing improvement actions.
- During 2018, the internal audit plan included reviews of business functions of retail, marketing, treasury, accounting and financial reporting, human resources management and administration and projects. No significant issues were raised during the review.
- Consider and approve the scope of work to be undertaken by the Internal Audit function in 2019. During 2019, it is expected that the internal audit plan will include reviews of leasing business, property management practice, etc.

Review of Terms of Reference and Policy

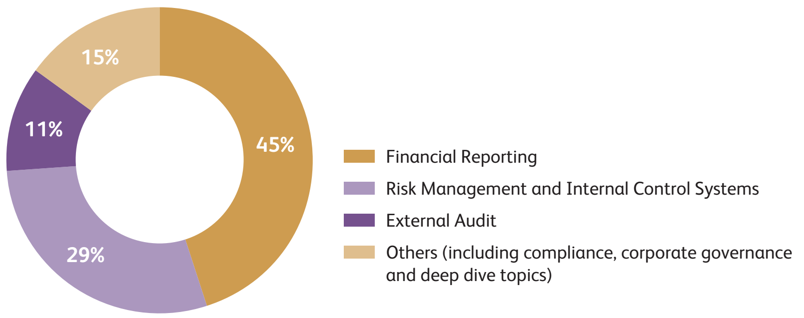
- Review the terms of reference of the Audit and Risk Management Committee and the Auditor Services Policy, including to extend the cooling off period for a former audit partner to become an Audit and Risk Management Committee member in accordance with the requirements of the Listing Rules. In February 2019, the terms of reference were further revised to better address the Audit and Risk Management Committee's key objectives and emphasis on risk management.

Members' attendance records are disclosed in the table on page 68.

Evaluation

The Board and Committee evaluation process, which took place during the year, concluded that the Audit and Risk Management Committee was effective in fulfilling its roles in 2018. For details, please refer to Corporate Governance Report – "Board Evaluation 2018" (page 69).

Audit and Risk Management Committee activities and agenda time during the year



Members of the Audit and Risk Management Committee

Poon Chung Yin Joseph *(Chairman)*
Churchouse Frederick Peter
Fan Yan Hok Philip
Lee Anthony Hsien Pin

Hong Kong, 21 February 2019

Remuneration Committee Report

Composition

Majority are Independent Non-Executive Directors

Committee Members

Fan Yan Hok Philip*
(Chairman)

Lee Tze Hau Michael

Poon Chung Yin Joseph*

*Independent Non-Executive Director

Dear shareholder,

"The primary roles of the Remuneration Committee are advising the Board on formulating the remuneration policy for Directors and senior management, determining remuneration and incentives packages for Directors and senior management, and ensuring that they are commensurate with their qualifications and competencies.

Highlights

- Considered remuneration for Directors and senior management
- Considered the long-term incentive scheme

Key responsibilities

- Reviewing Hysan's framework and general policies for the remuneration of Executive Director(s) and senior management
- Reviewing the remuneration packages of Executive Director(s), Non-Executive Director(s) and senior management
- Reviewing share incentive plans

Meeting Schedule

The Remuneration Committee generally meets at least once every year. On matters other than those directly concerning them, the Executive Director(s) and management may be invited to the Remuneration Committee meetings. No Director is involved in deciding his/her own remuneration.

Roles and Authorities

- Review Hysan's framework and general policies for the remuneration of Executive Director(s) and members of senior management, as recommended by management, and make recommendations to the Board.
- Review the remuneration of Executive Director(s) and senior management.
- Review the fees payable to Non-Executive Directors and Board Committee members prior to shareholders' approval at the AGM.
- Review new share option plans, changes to key terms of pension plans, and key terms of new compensation and benefits plans that have material financial, reputational, and strategic impact.

Activities

During the year of 2018, the Remuneration Committee held a meeting to:

- Approve the 2018 Executive Director's compensation package (including annual fixed base salary and annual special fee in recognition of the extra responsibilities she had assumed), and the 2017 performance-based bonus.
- Review the fees for Non-Executive Directors and Board Committee members.
- Review compensation of senior management and other department heads.
- Review and consider the long-term incentive scheme.

In January 2019, the Remuneration Committee also held a meeting to:

- Propose refinement to the remuneration and compensation package of the Executive Director, Non-Executive Directors and Board Committee members based on the recommendations of an independent global consultancy company specialising in human resources and compensation.
- Approve the 2019 Executive Director's compensation package, and the 2018 performance-based bonus.
- Review compensation of senior management and other department heads.
- Review and consider the long-term incentive scheme.
- Review the terms of reference of the Remuneration Committee.

Members' attendance records are disclosed in the table on page 68.

Executive Director(s)' and Senior Management's Remuneration Policy

The Group's remuneration policy aims to provide a fair market remuneration to attract, retain and motivate high quality Executive Director(s), senior management and employees. At the same time, awards must be aligned with shareholders' interests. In December 2018, the Group engaged an independent global consultancy company specialising in human resources and compensation to conduct an overall review of the Group's compensation structure for Executive Director(s), Non-Executive Directors and Board Committee members, with the objective of introducing refinements to better support the Group's strategic objectives ("Independent Compensation Review"). The Remuneration Committee thoroughly considered the Independent Compensation Review at the meeting held in January 2019.

The following principles have been established:

- Remuneration packages and structure to reflect a fair system of reward for all participants, with the emphasis on performance:

Fixed	Variable	
	Short-term	Long-term
base salary, benefits and pension benefits	performance-based component (bonus)	long-term incentives (executive share options)

- Remuneration packages to be set at levels to ensure comparability and competitiveness with Hong Kong-based companies competing for a similar talent pool, with special emphasis on the real estate industry. Independent professional advice is to be sought where appropriate.
- The Remuneration Committee to determine the overall amount of each component of remuneration, taking into account both quantitative and qualitative assessment of performance and achievement of financial and operational key performance that align with the Group's long-term strategy.
- Remuneration policy and practice to be as transparent as possible.
- Participants to develop significant personal shareholdings pursuant to the executive share options in order to align their interests with those of shareholders.
- Pay and employment conditions elsewhere in the Group are to be taken into account.
- The remuneration policy for Executive Director(s) and senior management is to be reviewed regularly, independent of executive management.
- The Remuneration Committee considered the annual base salary of Lee Irene Yun-Lien, which had remained unchanged since 2016 although she was paid a special fee in 2017 and 2018. The Committee also considered the recommendations from the Independent Compensation Review. In view of the significant in-year achievements, the Remuneration Committee concluded that her 2019 annual fixed base salary should be HK$8,000,000.

Details of Directors' (including individual Executive Director(s)) and senior management's emoluments for the year of 2018 and option movements for Executive Director(s) during the year are set out in notes 11, 12 and 37, respectively, to the consolidated financial statements.

Non-Executive Directors' Remuneration Policy

The Independent Compensation Review also included consideration and review of the Group's compensation structure for Non-Executive Directors and Board Committee members.

Key elements of our Non-Executive Directors' remuneration policy include the following:

- Remuneration to be set at an appropriate level to attract and retain first class non-executive talent.
- Remuneration of Non-Executive Directors is (subject to shareholders' approval) to be set by the Board and should be proportional to their commitment and contribution towards the Company.
- Remuneration practice to be consistent with recognised best practice standards for Non-Executive Directors' remuneration.
- Remuneration to be in the form of cash fees, payable semi-annually.
- Non-Executive Directors not to receive share options from the Company.

Non-Executive Directors had received no other compensation from the Group except for the fees disclosed below. None of the Non-Executive Directors had received any pension benefits from the Company, nor did they participate in any bonus or incentive schemes.

Non-Executive Directors (including Independent Non-Executive Directors) received fees totalling HK$2,615,000 for the year of 2018.

Director Fee Levels

Director fees are subject to shareholders' approval at general meetings. The Remuneration Committee considered the recommendations from Independent Compensation Review, and that the full Board has assumed the role of the Strategy Committee to participate and contribute in setting and reviewing long term strategy; the Audit and Risk Management Committee has increasingly important role to support the Board in monitoring the Group's risks; as well as the level of responsibility, experience and abilities required of the Directors, level of care and amount of time required, as well as fees offered for similar positions in companies requiring the same talent, it is proposed for shareholders' consideration and approval that Director fees for Non-Executive Directors and Board Committee members be revised. The current fees for Non-Executive Directors and Board Committee members and the proposed fees are set out below. Executive Director(s) will not receive any director fee(s).

	Current Fee Per annum HK$	Proposed Fee Per annum HK$
Board of Directors		
Non-Executive Director	250,000 *(Note 6)*	280,000
Audit and Risk Management Committee *(Note 1)*		
Chairman	135,000 *(Note 5)*	180,000
Member	70,000 *(Note 5)*	108,000
Remuneration Committee		
Chairman	60,000 *(Note 4)*	75,000
Member	40,000 *(Note 3)*	45,000
Nomination Committee		
Chairman	30,000	50,000
Member	20,000	30,000
Strategy Committee *(Note 2)*		
Chairman	N/A	N/A
Member	N/A	N/A

Notes:
1. Audit Committee was renamed as the Audit and Risk Management Committee, effective from 21 February 2019.
2. Strategy Committee was discontinued and assumed by the Board with effect from 1 January 2019. The full Board is involved in setting and reviewing longer-term directional strategy for the growth of the Group. The then fee of Strategy Committee in 2018 for both Chairman and Member is HK$30,000.
3. Approved by shareholders in the 2011 AGM.
4. Approved by shareholders in the 2014 AGM.
5. Approved by shareholders in the 2016 AGM
6. Approved by shareholders in the 2018 AGM.

Human Resources Practices

The Group aims to attract, retain and develop high calibre individuals committed to attaining our objectives. The total number of employees as at 31 December 2018 was 485. The Group's human resources practices are aligned with our corporate objectives so as to maximise shareholder value and achieve growth. Details on our human resources programmes, training and development are set out in the "2018 Sustainability Report".

Long-term incentives: Share Option Schemes

The Company may grant options under executive share option schemes as adopted from time to time. The purpose of the schemes is to strengthen the connection between individual staff and shareholders' interests. The power to grant options to Executive Director(s) is vested in the Remuneration Committee and endorsement by all Independent Non-Executive Directors is required under the Listing Rules. The Chairman or the Chief Executive Officer may make grants to management staff below the Executive Director level.

The 2005 Share Option Scheme (the "2005 Scheme")

The Company adopted the 2005 Scheme at its AGM held on 10 May 2005 (the "2005 AGM"), which had a term of 10 years and expired on 9 May 2015. All outstanding options granted under the 2005 Scheme will continue to be valid and exercisable in accordance with the provisions of the 2005 Scheme. No further option will be granted under the 2005 Scheme.

Under the 2005 Scheme, options to subscribe ordinary shares of the Company may be granted to employees of the Company or any wholly-owned subsidiaries (including Executive Director(s)) and such other persons as the Board may consider appropriate from time to time, on the basis of their contribution to the development and growth of the Company and its subsidiaries.

The maximum number of shares in respect of which options may be granted under the 2005 Scheme and any other share option scheme of the Company shall not exceed the maximum number of shares permissible under the Listing Rules, being 10% of the total number of shares in issue as at the date of the 2005 AGM (being 104,996,365 shares).

The maximum entitlement of each participant under the 2005 Scheme must not, during any 12-month period, exceed the maximum number of shares permissible under the Listing Rules (which is 1% of the total number of shares in issue as at the date of the 2005 AGM, being 10,499,636 shares). The exercise price shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; and (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant. Consideration for each grant of option is HK$1 and is required to be paid within 30 days from the date of grant of options, with full payment for the exercise price to be made on exercise of the relevant options.

The 2015 Share Option Scheme (the "New Scheme")

The Company adopted the New Scheme (together with the 2005 Scheme, both are referred to as the "Schemes") at its AGM held on 15 May 2015 (the "2015 AGM"), which has a term of 10 years and will expire on 14 May 2025. Terms of the New Scheme are substantially the same as those under the 2005 Scheme.

Under the New Scheme, options to subscribe ordinary shares of the Company may be granted to employees of the Company or any subsidiaries (including Executive Director(s)) and such other persons as the Board may consider appropriate from time to time, on the basis of their contribution to the development and growth of the Company and its subsidiaries.

The maximum number of shares in respect of which options may be granted under the New Scheme and any other share option schemes of the Company shall not in aggregate exceed the maximum number of shares permissible under the Listing Rules, currently being 10% of the total number of shares in issue as at the date of the 2015 AGM (being 106,389,669 shares). Under the Listing Rules, a listed issuer may seek approval by its shareholders in a general meeting for "refreshing" the 10% limit under the New Scheme. The limit on the total number of shares that may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company must not exceed 30% of the shares in issue from time to time (or the maximum number of shares permissible under the Listing Rules). No options may be granted if such a grant would result in such 30% limit or maximum permissible limit being exceeded.

The maximum entitlement of each participant under the New Scheme must not, during any 12-month period, exceed the maximum number of shares permissible under the Listing Rules (which is 1% of the total number of shares in issue as at the date of the 2015 AGM, being 10,638,966 shares). The exercise price shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; and (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant. Consideration for each grant of option is HK$1 and is required to be paid within 30 days from the date of grant of options, with full payment for the exercise price to be made on exercise of the relevant options.

Grant and vesting structures

Under the Company's current policy, grants are to be made on a periodic basis. The exercise period is 10 years. The vesting period is 3 years in equal proportions starting from the 1st anniversary and shares will become fully vested on the 3rd anniversary of the grant. The size of the grant will be determined with reference to a base salary multiple and job performance grades. The Board reviews the grant and vesting structures from time to time.

Movement of share options

During the year, a total of 956,200 shares options were granted under the New Scheme. The 2005 Scheme had expired on 9 May 2015 and no further option will be granted under the 2005 Scheme.

As at the date of this Annual Report:

(i) 1,322,667 share options granted and fully-vested under the 2005 Scheme remained outstanding, representing approximately 0.13% of the total number of issued shares of the Company;

(ii) 1,983,867 share options granted (including 468,995 fully-vested share options) under the New Scheme remained outstanding, representing approximately 0.19% of the total number of issued shares of the Company; and

(iii) 104,088,205 shares are issuable under the New Scheme, representing approximately 9.95% of the total number of issued shares of the Company.

Details of options granted, exercised, cancelled/lapsed and outstanding under the Schemes during the year are as follows:

2005 Scheme

					Changes during the year			
Name	Date of grant	Exercise price HK$	Exercise period *(Note a)*	Balance as at 1.1.2018	Granted	Exercised	Cancelled/ lapsed *(Note b)*	Balance as at 31.12.2018
Executive Director								
Lee Irene Yun-Lien	14.5.2012	33.50	14.5.2013 – 13.5.2022	87,000	–	–	–	87,000
	7.3.2013	39.92	7.3.2014 – 6.3.2023	265,000	–	–	–	265,000
	10.3.2014	32.84	10.3.2015 – 9.3.2024	325,000	–	–	–	325,000
	12.3.2015	36.27	12.3.2016 – 11.3.2025	300,000	–	–	–	300,000
Eligible employees *(Note c)*	31.3.2009	13.30	31.3.2010 – 30.3.2019	59,000	–	(59,000) *(Note d)*	–	–
	31.3.2010	22.45	31.3.2011 – 30.3.2020	70,334	–	(20,334) *(Note e)*	–	50,000
	31.3.2011	32.00	31.3.2012 – 30.3.2021	54,000	–	(22,000) *(Note f)*	–	32,000
	30.3.2012	31.61	30.3.2013 – 29.3.2022	105,334	–	(35,334) *(Note g)*	–	70,000
	28.3.2013	39.20	28.3.2014 – 27.3.2023	153,000	–	(51,000) *(Note h)*	(17,000)	85,000
	31.3.2014	33.75	31.3.2015 – 30.3.2024	154,000	–	(108,000) *(Note i)*	–	46,000
	31.3.2015	34.00	31.3.2016 – 30.3.2025	204,667	–	(138,333) *(Note j)*	(3,667)	62,667
				1,777,335	–	(434,001)	(20,667)	1,322,667

New Scheme

					Changes during the year			
Name	Date of grant	Exercise price HK$	Exercise period *(Note a)*	Balance as at 1.1.2018	Granted	Exercised	Cancelled/ lapsed *(Note b)*	Balance as at 31.12.2018
Executive Director								
Lee Irene Yun-Lien	9.3.2016	33.15	9.3.2017 – 8.3.2026	375,000	–	–	–	375,000
	23.2.2017	36.25	23.2.2018 – 22.2.2027	300,000	–	–	–	300,000
	1.3.2018	44.60 *(Note k)*	1.3.2019 – 29.2.2028	–	373,200	–	–	373,200
Eligible employees *(Note c)*	31.3.2016	33.05	31.3.2017 – 30.3.2026	377,668	–	(158,333) *(Note l)*	(45,335)	174,000
	31.3.2017	35.33	31.3.2018 – 30.3.2027	409,000	–	(84,666) *(Note m)*	(75,667)	248,667
	29.3.2018	41.50 *(Note n)*	29.3.2019 – 28.3.2028	–	583,000	–	(70,000)	513,000
				1,461,668	956,200	(242,999)	(191,002)	1,983,867

Notes:

(a) All options granted have a vesting period of 3 years in equal proportions starting from the 1st anniversary and become fully vested on the 3rd anniversary of the grant. In this table, "exercise period" begins with the 1st anniversary of the grant date.
(b) The options lapsed during the year upon the resignation of certain eligible employees.
(c) Eligible employees are working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance.
(d) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$39.25.
(e) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$45.36.
(f) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$44.55.
(g) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$43.56.
(h) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$43.88.
(i) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$43.99.
(j) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$42.85.
(k) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 28 February 2018) was HK$45.35.
(l) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$42.52.
(m) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$42.33
(n) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 28 March 2018) was HK$40.75.

Apart from the above, the Company has not granted any share option under the Schemes to any other persons during the year that is required to be disclosed under Rule 17.07 of the Listing Rules.

Particulars of the Schemes are set out in note 37 to the consolidated financial statements.

Value of share options

Pursuant to Rule 17.08 of the Listing Rules, the value of the share options granted during the year is to be expensed through the Group's statement of profit or loss over the three-year vesting period of the options.

The fair values of share options granted by the Company were determined by using the Black-Scholes option pricing model (the "Model"). The Model is one of the commonly used models to estimate the fair value of an option. The variables and assumptions used in computing the fair value of the share options are based on management's best estimate. The value of an option varies with different variables based on a number of subjective assumptions. Any change in the variables may materially affect the estimation of the fair value of an option.

The inputs into the Model were as follows:

Date of grant	29.3.2018	1.3.2018
Closing share price at the date of grant	HK$41.500	HK$43.700
Exercise price	HK$41.500	HK$44.600
Risk free rate *(Note a)*	1.802 %	1.741 %
Expected life of option *(Note b)*	5 years	5 years
Expected volatility *(Note c)*	17.923 %	17.534 %
Expected dividend per annum *(Note d)*	HK$1.288	HK$1.288
Estimated fair values per share option	HK$4.900	HK$4.760

Notes:

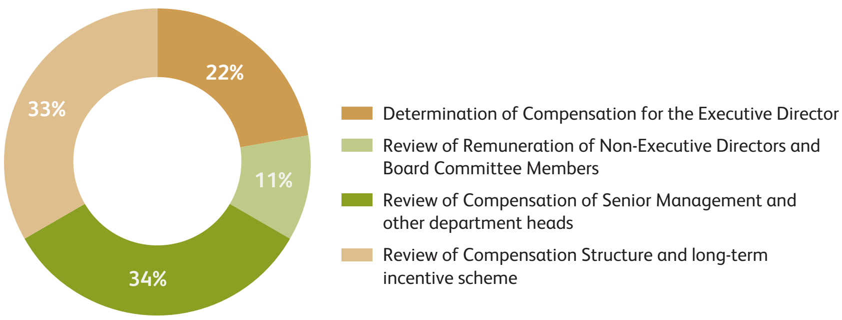
(a) Risk free rate: being the approximate yields of 5-year Exchange Fund Notes traded on the date of grant, matching the expected life of each option.

(b) Expected life of option: being the period of 5 years commencing on the date of grant, based on management's best estimates for the effects of non-transferability, exercise restriction and behavioural consideration.

(c) Expected volatility: being the approximate historical volatility of closing prices of the shares of the Company over the past 5 years immediately before the date of grant.

(d) Expected dividend per annum: being the approximate average annual cash dividend over the past 5 financial years.

Remuneration Committee activities and agenda time during the year



Members of the Remuneration Committee

Fan Yan Hok Philip *(Chairman)*
Lee Tze Hau Michael
Poon Chung Yin Joseph

Hong Kong, 21 February 2019

Nomination Committee Report

Composition

Majority are Independent Non-Executive Directors

Committee Members

Lee Irene Yun-Lien (Chairman)

Fan Yan Hok Philip*

Lau Lawrence Juen-Yee*

Lee Chien

Poon Chung Yin Joseph*

*Independent Non-Executive Director

Dear shareholder,

"The primary roles of the Nomination Committee are to review Board structure, composition and diversity, and to recommend Board appointments. The roles of Non-Executive Directors continue to evolve in line with the growing demands and fast-changing business environment. The Board is constantly looking ahead to ensure that our Non-Executive Directors have the required skills and experience to drive the highest performance. During the year, we were pleased to welcome Wong Ching Ying Belinda, our new Independent Non-Executive Director, to the Board.

Highlights

- Nominated Wong Ching Ying Belinda as a new Independent Non-Executive Director
- Considered the re-appointment and independence of Directors
- Reviewed the Nomination Policy, Diversity Policy and Terms of Reference of Nomination Committee

Key responsibilities

- Reviewing the structure, size, composition and diversity of the Board and making recommendations to the Board
- Assessing independence of the Independent Non-Executive Directors

Meeting Schedule

The Nomination Committee generally meets at least once every year.

Roles and Authorities

- Review and make recommendations on the structure, size, composition and diversity of the Board to complement the Company's corporate strategies.
- Review the Diversity Policy.
- Nominate candidates to fill Board vacancies after careful consideration of the attributes and values required to support the effective functioning of the Board based on a combination of skills, knowledge and experience.
- Review the independence of Directors pursuant to the Listing Rules' requirements.
- Generally oversee the succession planning of the Board.
- Review the time commitment and the efforts required from Directors to discharge their responsibilities.
- Review the training and continuous professional development of the Directors.

Activities

During the year of 2018, the Nomination Committee held a meeting to:

Board Changes and Composition

- Consider and nominate Wong Ching Ying Belinda as an Independent Non-Executive Director to the Board in accordance with the Company's Nomination Policy and Diversity Policy. The appointment introduces in a new spectrum of expertise and experience in retail, food and beverage, people, brand development and growth strategy across the Greater China and Asia Pacific regions.

  Director Recruitment Process

  A wide and diverse range of candidates with different skills and business backgrounds that would be attributes to the business needs is identified

  ↓

  Nomination Committee Chairman meets with shortlisted candidates

  ↓

  Nomination Committee assesses the suitability of the candidates based on a range of criteria

  ↓

  All Directors are given the opportunity to meet with the preferred candidate

  ↓

  Nomination Committee makes a recommendation to the Board

- Review the Board's structure, size, composition and diversity, and monitor the progress made towards enriching the skills and experience of Board members and improving diversity within the Board. The Nomination Committee was satisfied that, with the appointment made during the year and the discontinuation of the Strategy Committee, the current composition and size of the Board remained appropriate for the time being. However, these matters continue to be kept under regular review.
- Continue with the appointment of Li Xinzhe Jennifer as an advisor to the Board, to continue to enrich the Board's skills and diversity.
- The recent Board performance evaluation concluded that the Board has operated very well. The Nomination Committee was satisfied that all Directors were strongly committed to the Company and had contributed to the Board through their participation in the Company's affairs and discussions at the Board and Board Committees' meetings during the year, as reflected in their high attendance records in the table on page 68.
- Review the contribution of Directors who are due to retire and subject to re-appointment at the forthcoming Annual General Meeting with the support of the Board.
- Review the training of Directors and senior management.

Independence of Non-Executive Directors

- Assess the independence, effectiveness and commitment of each of the Company's Independent Non-Executive Directors. The Nomination Committee was satisfied that notwithstanding the length of service of such Directors, as well as their number and nature of office held in other public companies and their other commitments, they remained highly committed to the Company, remaining independent and impartial, and continuing to be in a position to discharge their duties and responsibilities in the coming year.

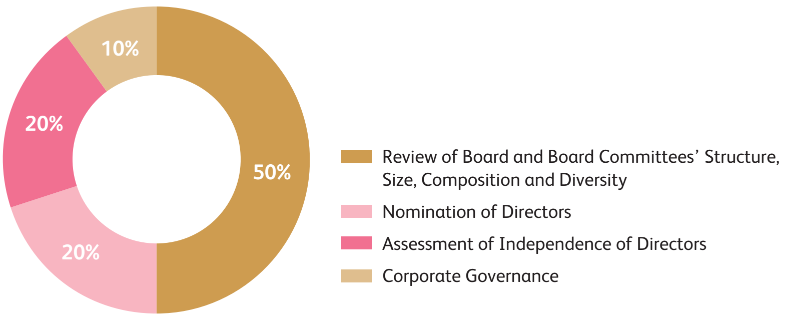
Review of Policy and Terms of Reference

- Enhance our Diversity Policy to emphasise the importance of a diverse Board and senior management team.
- Adopt a separate Nomination Policy to emphasise our commitment to a rigorous and transparent nomination process.
- Review its terms of reference taking into account the corporate governance roles of the Nomination Committee. In February 2019, the terms of reference were further reviewed to address the key objectives.

Next Generation Innovation Panel and Sustainability Committee

- Consider the nature and composition of the Next Generation Innovation Panel, which refreshes capabilities and supports the strategic direction-making of the Board.
- Seek to reflect, in a more formally manner, the Sustainability Committee at management level, thereby which supporting the Board in the Company's drive to comply with environmental, social and governance requirements and directions.

Nomination Committee activities and agenda time during the year



Members of the Nomination Committee

Lee Irene Yun-Lien *(Chairman)*
Fan Yan Hok Philip
Lau Lawrence Juen-Yee
Lee Chien
Poon Chung Yin Joseph

Hong Kong, 21 February 2019

Strategy Committee Report

Composition	Highlights	Key responsibilities
Lee Irene Yun-Lien (Chairman) Fan Yan Hok Philip* Jebsen Hans Michael Lee Chien Poon Chung Yin Joseph* *Independent Non-Executive Director	• Discussed business plans, as well as longer-term directional strategy for the growth of the Group	• Reviewing and recommending to the Board actions on the Group's strategic matters • Aligning corporate responsibility and sustainability initiatives with the Group's strategy

Change of Board Committee

The Board has recognised the importance of formulating the Group's strategies and long-term objectives for the future. The Board had therefore resolved to assume the role of the Strategy Committee and incorporate the Company's strategy discussions as an integral part of Board meetings. Accordingly, the Strategy Committee was discontinued and assumed by the Board with effect from 1 January 2019. This further facilitates and enables the full Board to actively involve and participate in setting and reviewing longer-term directional strategy for the growth of the Group.

Meeting Schedule

The Strategy Committee met once in November 2018. Full Board members were also invited and attended.

Roles and Authorities

The Strategy Committee was responsible for reviewing and making recommendations to the Board on the Group's strategic matters.

Activities

During the year of 2018, the Strategy Committee held a meeting (in which full Board members and senior management joined and actively participated) to discuss business plans, as well as longer-term directional strategy for the growth of the Group.

The Board recognised the importance of formulating the Group's strategic and long-term objectives for the future. The Board fully supported the strategy of strengthening our core and non-core operations both for today and for the next generations, and to position and transform the Lee Gardens to achieve an even higher level of attainment. This commitment is to provide our stakeholders with sustainable and outstanding returns from a property portfolio that is strategically planned and managed by passionate, responsible and forward-looking professionals.

Members' attendance records are disclosed in the table on page 68.

Members of the then Strategy Committee

Lee Irene Yun-Lien *(Chairman)*
Fan Yan Hok Philip
Jebsen Hans Michael
Lee Chien
Poon Chung Yin Joseph

Hong Kong, 21 February 2019

Risk Management and Internal Control Report

Responsibility

Responsibility for risk management is shared among the Board of Directors and the management of the Group. The Board has the overall responsibility of reviewing and maintaining sound and effective risk management and internal control systems. Management's role is to design and implement these systems, and report to the Board and the Audit and Risk Management Committee on the risks identified and how they are managed, which is a process that is essential for the Group to achieve its business objectives.

Our Risk Management and Internal Control Framework

The Audit and Risk Management Committee supports the Board in monitoring our risk exposures, the design and operating effectiveness of the underlying risk management and internal control systems. Acting on behalf of the Board, the Committee oversees the following processes on a regular basis:

(i) Reviewing the principal business risks and control measures in order to mitigate, transfer or avoid such risks; the strengths and weaknesses of the overall risk management and internal control systems; and action plans to address the weaknesses or improve the assessment process;

(ii) Reviewing the business process and operations reported by Internal Audit, including action plans to address the identified control weaknesses, as well as status updates and monitoring the implementation of audit recommendations; and

(iii) Reporting by the external and internal auditors of any control issues identified in the course of their work, and discussing with the external and internal auditors the scope of their respective review and findings.

The Audit and Risk Management Committee would report its findings to the Board, which would then consider these findings in order to form its own view on the effectiveness of the Group's risk management and internal control systems.

Please also see the "Audit and Risk Management Committee Report" from pages 80 to 84 regarding the Audit and Risk Management Committee's detailed review work, including the forms of assurance received from management, the external auditor and internal auditor.

Hysan's Top-Down/Bottom-Up Risk Management Framework

THE BOARD

- Has overall responsibility for the Group's risk management and internal control systems
- Sets strategic objectives
- Reviews the effectiveness of our risk management and internal control systems
- Monitors the nature and extent of risk exposure for our major risks
- Provides direction on the importance of risk management and risk management culture

AUDIT AND RISK MANAGEMENT COMMITTEE

- Supports the Board in monitoring risk exposure, design and operational effectiveness of the underlying risk management and internal control systems

Overseeing, identifying, assessing, and mitigating risk at corporate level

"Top-down"

"Bottom-up"

Overseeing, identifying, assessing, and mitigating risk at business unit level and across functional areas

MANAGEMENT LEVEL – RISK MANAGEMENT COMMITTEE

- Designs, implements, and monitors risk management and internal control systems
- Assesses our risks and mitigating measures Company-wide

INTERNAL AUDIT

- Provides the Audit and Risk Management Committee with independent assurance over the effectiveness of our risk management and internal control systems

OPERATIONAL LEVEL

- Identifies, assesses and mitigates risk across the business
- Implements risk management and internal control practices across business operations and functional areas

2018 Review of Risk Management and Internal Control Effectiveness

In respect of the year ended 31 December 2018, the Board, with confirmation from the Chief Operating Officer, Chief Financial Officer, Head of Internal Audit and General Counsel and Company Secretary, considered the risk management and internal control systems to be effective and adequate. No significant areas of concern that may affect the financial, operational, compliance controls, internal audit, risk management and internal controls functions of the Group were identified. The risk management and internal control systems are designed to manage rather than to eliminate the risk of failure to achieve business objectives, and can only provide reasonable, not absolute, assurance against material misstatement or loss.

During the review, the Board also considered the resources, qualifications/experience of staff of the Group's internal audit, accounting and financial reporting functions and their training and budgets were considered adequate.

Our Risk Management and Internal Control Model

Our risk management and internal control model is based on that of the Committee of Sponsoring Organisations of the U.S. Treadway Commission ("COSO") for internal control, but with due consideration given to our organisational structure and business nature.

The COSO model has five components and how the model fits into our operational and control environment is described as follows:

- **Control Environment** – this sets the tone for risk management and internal control. As Hysan is a tightly-knit organisation, the actions of management and its commitment to effective governance are transparent to all.

  We have a strong tradition of good corporate governance and a corporate culture based on sound business ethics and accountability. We have in place a formal Code of Ethics that is communicated to all staff (including new recruits). We have maintained a separate Whistleblowing Policy since 2016, under which whistle blowers can raise concerns to a designated independent third party who then reports to the Audit and Risk Management Committee. Our overall aim is to build risk awareness and control responsibility into our culture, becoming thereby the foundation of our risk management and internal control systems.

- **Risk Assessment** – we continue to improve our risk management process and the quality of information generated, while maintaining a simple and practical approach. Instead of setting up a separate risk management department, we seek to embed risk management into our operations (retail, office, residential, property management & technical services, projects, marketing and investment & development) and functional areas (including finance, human resources, IT, legal, secretarial and corporate communications).

  On an annual basis, department heads review and update their risk registers, providing assurances that controls are appropriately embedded and operating effectively.

  At management level, the risk management committee, comprising of Executive Director(s), Chief Operating Officer, Chief Financial Officer, Financial Controller, General Counsel and Company Secretary, and Head of Internal Audit, sets relevant policies and monitors potential weaknesses and action items regularly. This committee is also responsible for identifying and assessing risks of a more macro and strategic nature, including emerging risks.

  This bottom-up approach in which operating unit heads identify operational risks, together with the top-down approach, determine the Group's major risks. Discussion sessions with all department heads further enhance the participatory and interactive aspect of the overall risk assessment and risk challenge process.

- **Control Activities and Information and Communicating** – our core property leasing and management business involves well-established business processes. Control activities have traditionally been built on top-level reviews, segregation of duties, and physical controls. These control policies have been formalised as written policies and procedures, with defined limits of delegated authority and segregated duties and controls. A greater use of automation (information processing and analytics) is also being implemented.

The annual budgeting and planning process, one of our key control activities, takes into consideration all risk factors. All operating units, in preparing their respective plans, are required to identify material risks that may have an impact on the achievement of their business objectives. Action items to mitigate identified risks are required to be developed for implementation. Variance analyses are regularly performed and reported to management and the Board, which help to identify deficiencies for timely remedial actions to be taken.

Another significant control activity is the monitoring of major project expenditures, as they are a particularly capital-intensive aspect of our property business. For each project, a detailed analysis of expected risks and returns is submitted to the operating unit heads, Chief Operating Officer, Chief Financial Officer, Executive Director(s) and the Board for approval. Criteria used to assess business and financial feasibility are generally based on net present value, payback period, and internal rate of return from projected cash flow as well as sensitivity analysis.

Management also conducts an internal control self-assessment annually. All department/unit heads must complete a relevant control self-assessment questionnaire and confirm with management that appropriate internal control policies and procedures have been established and properly complied with.

- **Monitoring Activities** – the Board and the Audit and Risk Management Committee oversee the control process, with the assistance from our Internal Audit team. Management provides update reports to the Audit and Risk Management Committee on major risks and appropriate mitigating measures. During the three Audit and Risk Management Committee meetings held annually, a session in each meeting is largely dedicated to discussions regarding risk management and internal control systems. In 2019, the Audit and Risk Management Committee will hold an additional meeting (making a total of 4 meetings) to address the dynamic risks and enhance the risk management oversight function.

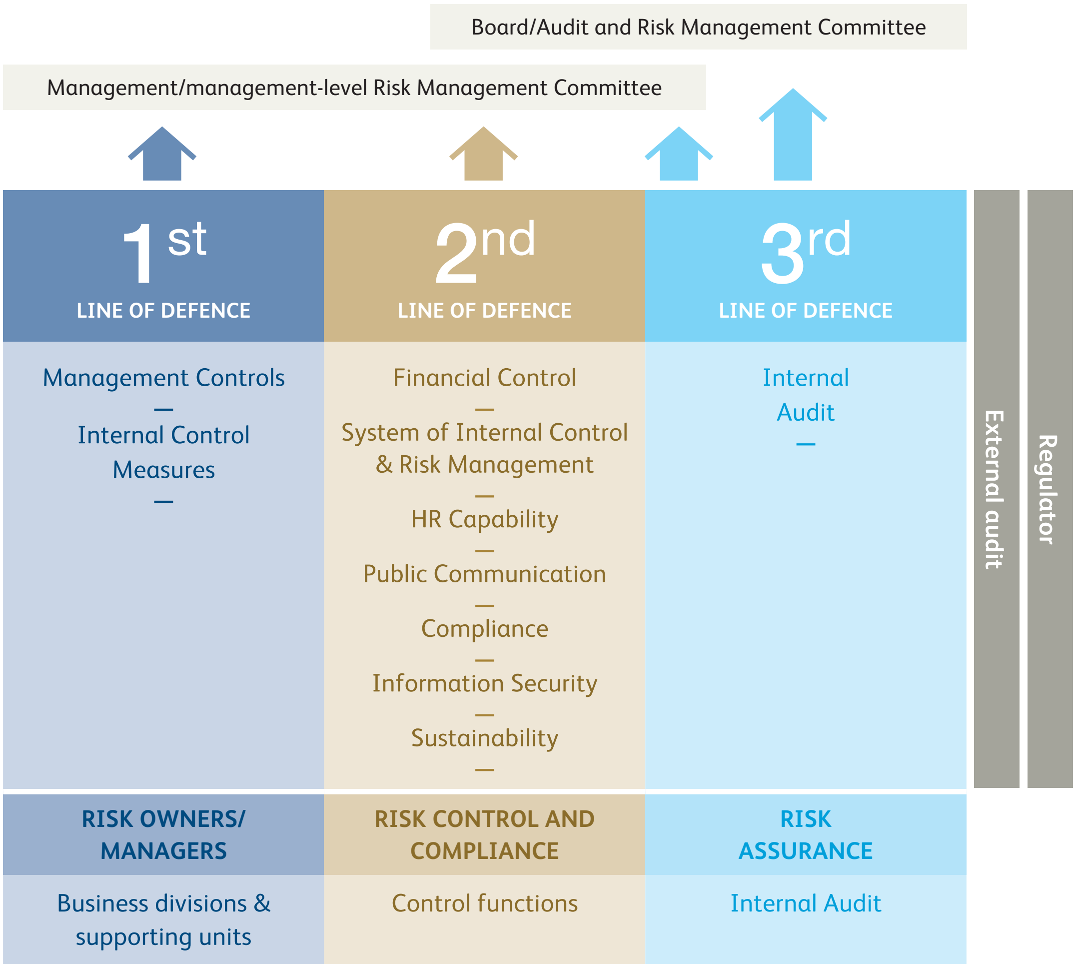
Strengthening our Underlying Systems

Since 2012, we have been progressively making improvements to our risk management and internal control systems. The initial phase focused on adopting a more risk-based, rather than process-based, approach to risk identification and assessment. This approach strengthens our ability to analyse risks and respond to opportunities as we pursue our strategic objectives. Management reporting to the Audit and Risk Management Committee has also been enhanced, including the presentation of special reports on selected risk topics.

Our goal is to further integrate risk management and internal control into our business processes, including annual budgeting and planning as well as major project management. In December 2013, we revised the COSO framework to adopt a holistic approach to risk management, taking into consideration the Company's circumstances, including its ongoing risk management and internal control improvement plan as well as strategic initiatives such as sustainability. Ultimately, our objective is to make risk management a "living" process that is practised on a day-to-day basis by operating units, incorporating up-to-date and fit for purpose market best practice.

Hysan's "Three Lines of Defence" Model

Clear responsibilities and robust controls are vital to help manage risks. Since 2017, we have reinforced our risk governance structure by adopting a "Three Lines of Defence" model to address how specific duties related to risk and control could be assigned and coordinated within the Group. This reinforced Hysan's risk management capabilities and compliance culture across all divisions and functions.



The model aims to reinforce Hysan's risk management capabilities and compliance culture throughout the Group. The responsibilities of each of the defence lines are as follows:

	Relevant units	Responsibilities
First LINE	Business and supporting units	Ultimately accountable for all risks and controls in all business processes
Second LINE	Corporate oversight and control functions	Responsible for the Group's policy framework and independent risk assessment
Third LINE	Group internal audit	Responsible for providing independent and objective assurance on the effectiveness of risk management, internal controls and governance processes

Hysan's Regulatory Compliance and Governance Framework

The Board, supported by the Audit and Risk Management Committee, shall have overall regulatory compliance authority in all matters. We have a regulatory compliance and governance framework in place, which is fundamental to our commitment of achieving a high standard of internal control and governance.

Our Past Efforts in Enhancing the Internal Control Environment and Activities

In addition, the following are examples of the improvements we have made over the past few years to strengthen our risk management and internal control system:

Control Environment – policy of compliance

• Updated the Group's competition law compliance policy and templates. Training on Competition Law was organised in June 2018 for our Business Units, covered practical application to our business practices, consequences of breach, etc.	Ongoing review/ refinement of processes and structures to enhance compliance.

Risk Assessment – enhanced monitoring of "emerging risks"

• Strengthened the monitoring of material risks and "emerging risks", i.e. new or evolving risks with potential significant impact, such as socio-political, economic or cyber security risks. The management-level Risk Management Committee plays a key role in identifying and tracking these risks, with top management leading discussions with all department heads.	In the context of a fast-changing global and local environment, the monitoring of "emerging risks" will be a focus.

Control Activities – e-compliance system

• The half-yearly compliance reporting was digitalised and transformed into an electronic reporting system in July 2018. The legal compliance and connected transactions reporting systems were combined into one. This facilitates timely reporting, good record tracking and improves efficiency.	Continual review and refinement of internal risk management and reporting procedures to ensure prompt and timely response and escalation.

Control Activities – internal controls and policies

• Enhanced the group-wide privacy compliance framework and reviewed the procedures for various key business units. Subsequent training was delivered to reinforce improvements. • Regular trainings and education provided across the Group during the year by Legal Department and external professional advisors, including how to handle down raids, connected transactions, privacy compliance, lease negotiation, intellectual properties, etc.	Continual review and refinement of policies and procedures, risk management and internal controls in line with the fast-changing external and internal business environments are essential.

Monitoring Activities – enhanced "management assurance" to the Audit and Risk Management Committee and the Board

• Enhanced management update reports to the Audit and Risk Management Committee and the Board on major risks, including deep-dive reports on topics such as enterprise-wide cyber security assessment, treasury process and Lee Garden Three project. To strengthen management's "assurance" to the Audit and Risk Management Committee and the Board, self-assessment questionnaires were rolled out across all departments. Department heads were required to review and certify the effectiveness of their departmental controls, including the identification of any control issues. This backs up management's certification to the Audit and Risk Management Committee and the Board.	Facilitate and enhance the work of the Audit and Risk Management Committee and the Board in monitoring our risk exposure.

Our Risk Profile

Our approach for managing risk is underpinned by our understanding of our current risk exposures, and how our risks are changing over time. The following illustrates the nature of our major risks. Further analysis of our strategies is set out in other sections of the Annual Report as indicated below:

Risk area	Risk level changes during 2018	Description of risk change	Our mitigating measures
Overall business environment	↑	• High uncertainties in global political and economic environment. • Signs of economic slow down in mainland China and Hong Kong economies cause head winds to impede our growth.	• Better curated portfolio as well as prudent and sound financial management enable Hysan to become more resilient.
Office sector	↑	• Continued decentralisation from Central benefits Hysan in Causeway Bay as well as other areas like Hong Kong Island East, Wong Chuk Hang and Kowloon Bay. Rent conscious tenants may aim for lower cost non-traditional business areas. • Rental reversion for Grade A office in Wan Chai and Causeway Bay shows slower growth in 2018. • Non-grade A office in Causeway Bay faces greater pressure due to lower demand and rent levels. • Co-working is a disruptor to traditional office leasing business. Expected consolidation may disturb the market.	• Diverse and flexible leasing efforts as well as maintaining a diversified tenant mix ensure a more resilient tenant portfolio. • Offer tailored solutions to increase marketability of office units. • Embrace co-working trend by collaborating with leading and strong co-working brands.
Retail sector	↑	• Retail market recovery momentum may not be sustainable as when growth in Q3 and Q4 2018 was much lower than that experienced in Q1 and Q2 2018. • Brands are cautious when opening new shops. • Peers are catching up with their offerings and narrowing our advantages. • Regional malls divert shoppers from traditional shopping areas.	• Diverse and flexible leasing effort as well as active curation of tenant mix to ensure a more resilient and sustainable tenant portfolio. • Use business technology to drive loyalty programme as well as shopping experiences to distinguish ourselves. • Focus on marketing efforts to target relevant existing and potential new shoppers.
Residential sector	←→	• Uncertainties in economy affect demand for luxury residential units from expatriates as well as affordable rent level due to their tighter budget. • With more well decorated units offered, both rental reversion and occupancies have improved in 2018.	• Continue efforts in renovating units as well as the public area to enhance appeal to potential new tenants and to drive demand as well as postering higher rentals.
Lee Garden Three Project	↓	• Lee Garden Three was completed in December 2017 and has been operating well.	–
Tai Po Residential Development Project	↑	• The low-rise residential development project in Tai Po, which is jointly invested with HKR International Limited ("HKRI"), is making good progress. Various statutory submissions are ongoing. Site work has also commenced. This project is managed together with HKRI and will be executed professionally. Recent signs of the cooling of the property market, as well as the new "vacancy tax" levied by the Government, may affect developers' profits in the future.	• Ensure the sites are carefully and professionally designed to fit the target market. • Approach the market at the appropriate moment. • Sensible tender price mitigates pressure on profit.
Human Resources	←→	• With continual low unemployment rate and structural changes in the workforce in Hong Kong, the service industry continues to face widespread labour shortages. • We are facing competition for skilled personnel for our frontline operations as well as management to support our growth strategy.	• Improve working environment, benefits and an emphasis on well-being would help recruit new blood and retain talented people more effectively.
Cyber Security	↑	• With fast developments in business technology, Hysan continues to leverage technology to improve our offering to shoppers and tenants, as well as to enhance our operations and management. • Disturbance to business due to cyber security risks can be significant and costly to rectify.	• Regular cyber security review with capable management in place to mitigate the risks.

Notes:

↑ where "inherent risks" (i.e. before taking into consideration mitigating activities) have increased

↓ where "inherent risks" have decreased

←→ where "inherent risks" have remained broadly the same

Sustainability Report – Summary

This section provides a summary of Hysan's sustainability/corporate responsibility strategy overview and accomplishments. The reporting period is from 1 January 2018 to 31 December 2018, unless otherwise specified. Hysan continued to comply fully with the requirements of the provisions contained in the Environmental, Social and Governance Reporting Guide, Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

As a "Business of Life", Hysan creates positive and visible changes of influence for our stakeholders and the communities we serve. With much stronger emphasis on sustainability in all walks of life in recent years and the Board's strong support and commitment to sustainability, we decided to embed further sustainable development principles and practices into our operations and to provide a better structure within our corporate setup to strategize and report on sustainability issues.

In 2018, a Sustainability Committee at management level was formalised to formulate sustainability strategies and oversee their implementation in an efficient and effective manner, with clear terms of reference and delegated powers. This Committee is chaired by the Chief Operating Officer and reports to the Chairman of the Board and the Executive Committee. The Executive Committee then shares sustainability plans with the Board and helps cascade the Directors' views on each topic to the Sustainability Committee. A sustainability task force, with employees selected for their expertise as members, will execute the initiatives developed by this Committee.

Together with the formalisation of the Committee, a new Sustainability Policy for the Group was implemented in early 2019. Our new Sustainability Policy enhances the framework for the way we manage our corporate responsibilities. Maintaining high ethical standards, respecting our staff, providing and maintaining a safe and healthy environment, minimising the adverse impact of our operations on the environment, contributing to combatting climate change and improving resilience as a business, as well as encouraging partners to commit to high sustainability standards: these are our main sustainability themes.

Hysan has long assessed the materiality of sustainability issues it faces based on industry norms and what we learnt from participating in sustainability reporting with renowned international and local indexes, like FTSE4Good, MSCI Sustainability Indexes and Hang Seng Sustainability Index. For details about Hysan's sustainability initiatives, please refer to the 2018 Sustainability Report on the Company's website: www.hysan.com.hk

Under the sustainability umbrella, Hysan's Environmental Policy focuses on measuring and reporting our carbon reduction efforts, promoting waste reduction at source, enhancing green purchasing and improving stakeholder engagement.

Environmental Achievements of 2018

- Benchmarking exercises: Hysan Place achieved Final Platinum rating under BEAM Plus Existing Buildings; Lee Garden Three was given the China Green Building Label 2 Stars rating; the new Tai Po residential development began based on the requirements of BEAM Plus New Buildings Version 1.2.
- Partnership synergy: Collaborated with Green Monday and over 20 restaurants in Lee Gardens area during the summer to promote healthy and sustainable eating lifestyle through the @GoGreenCWB campaign; provided a LEED and BEAM information kit for Lee Garden Three tenants and encouraged tenants to aim for high interior sustainability standards.
- Public awareness: Installed the second Well[#], a smart water refill station, at the kid's floor of Lee Garden Two. During the summer of 2018, we also launched a one-month "Hydrating Causeway Bay" campaign with an additional pop-up Well[#] installed at Hysan Place to promote reduced usage of disposable plastic bottles.

- Stakeholder engagement: Launched "GreenFest by Hysan" at Hysan Place to engage and inspire our new generations to take positive action towards a more sustainable future. The first edition of this event included many innovative workshops on the theme of "Rethink our Food".
- Waste management: Actively engaged our Food and Beverages tenants to deliver their food waste at Hysan's cost to the Organic Waste Treatment Facilities (OWTF) operated by the Environmental Protection Department.
- Energy saving initiatives: Installed energy-efficient variable voltage variable frequency (VVVF) type power system for the lift modernization project at One Hysan Avenue office tower and Lee Garden Two retail podium; continued to adopt more LED lights under Hysan's portfolio.
- Green finance: Developed our own Green Finance Framework as reviewed by Sustainalytics. This framework aims to guide the future funding of sustainable building development and enhancements through green bonds or loans.

In the area of workplace quality, our Code of Ethics and Employment and Staff Policy are well observed. The mobile learning system, introduced in 2017, was enhanced in 2018. It now has eight categories of curriculum encompassing 72 courses and 100 modules, encouraging employees to learn new skills and industry knowledge anytime anywhere.

To continue to feed the talent pipeline, Hysan recruited more high potential young talents through its 2018 Management Trainee Programme. The Management Trainees go through a 24-month structured rotation plan leading them to different business functions to receive an in-depth understanding of Hysan's business operations. Hysan's Health and Safety Policy focuses on the provision and maintenance of a safe and healthy environment within Hysan's portfolio for all staff, tenants, and members of the general public. In 2018, more than 1,800 hours of safety and health training were recorded by our staff members. Through our own demand for high levels of health and safety within our operations, we send a clear message to our partners and contractors to follow suit.

In 2018, Hysan continued its close ties with Lee Gardens Association (LGA), the area association that strives to create a unified community of businesses to promote the Lee Gardens area to the public. Many of LGA's new members are renowned traditional businesses along Lan Fong Road and Pak Sha Road, which helped bring more attention to the association and its activities. LGA has also developed its own popular social media platforms to promote the area and its events.

Hysan Place's Urban Farm and Sky Wetland remained the best-loved environmental attractions within our portfolio. In the past year, more than 25 local and international organizations visited these two green features at Hysan Place. Together with the GreenFest event, over 300 urban farmers enjoyed sessions growing organic produce at Hysan Urban Farm, while around 100 children and parents participated in our Green Wonders programme to learn about green building and urban farming.

Family and children's events became a strong focus for Hysan's community events in 2018. Apart from those co-sponsored with LGA, the company launched a monthly children's theatre performance at Lee Garden Two with the help of Absolutely Fabulous Theatre Connection. Each performance weekend would attract close to 400 participants.

On the artistic front, among other events, Hysan sponsored a special installation art piece by renowned Swiss artist Dimitri de Perrot, which was hosted at Hysan Place's popular atrium.

Hysan's volunteer team contributed 493 hours of their time to services for the community in 2018. Another 111 hours were recorded as contributions by team members' friends and families, who also took part in Hysan activities. Hysan was the winner of a Silver Award for Volunteer Service.

Directors' Report

The Directors submit their report together with the audited consolidated financial statements for the year ended 31 December 2018, which were approved by the Board of Directors on 21 February 2019.

PRINCIPAL ACTIVITIES

The principal activities of the Group continued throughout 2018 to be property investment, management, and development. Details of the Group's principal subsidiaries, associates and a joint venture as at 31 December 2018 are set out in notes 17 to 19 respectively to the consolidated financial statements.

The turnover and results of the Group are principally derived from the leasing of investment properties located in Hong Kong. The Group's turnover and results by operating segment are set out in note 5 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss on page 121.

The first interim dividend of HK27 cents per share, amounting to approximately HK$283 million, was paid to shareholders during the year.

The Board declared a second interim dividend of HK117 cents per share to the shareholders on the register of members on 8 March 2019, absorbing approximately HK$1,224 million. The dividends declared and paid for ordinary shares in respect of the full year 2018 will absorb approximately HK$1,507 million, and the balance of the profit will be retained.

BUSINESS REVIEW AND PERFORMANCE

A fair review of the business of the Company and a discussion and analysis of the Group's performance during the year, the material factors underlying its results and financial position and material attributable factors of the development and likely future developments of the Group's business, are provided throughout this Annual Report, particularly in the following separate sections:

(a) Review of the Company's business – "Management's Discussion and Analysis";

(b) The Company's risk management framework, the principal risks the Company is facing and the controls in place – "Risk Management and Internal Control Report";

(c) Future development of the Company's business – "Key Facts" and "Chairman's Statement";

(d) Analysis using financial key performance indicators – "Management's Discussion and Analysis";

(e) Discussion of the Company's environmental policies and performance – "Sustainability Report – Summary";

(f) Discussion of the Company's compliance with the relevant laws and regulations that have a significant impact on the Company – "Corporate Governance Report", "Sustainability Report – Summary" and "Independent Auditor's Report"; and

(g) An account of the Company's key relationships with its employees, customers, suppliers and others that have a significant impact on the Company and on which the Company's success depends – "Directors' Report" and "Sustainability Report – Summary".

A detailed discussion of the Company's environmental policies and performance, its compliance with the relevant laws and regulations that have a significant impact on the Company, and its key relationships with stakeholders, is contained in the separate 2018 Sustainability Report, which is available on the Company's website: www.hysan.com.hk.

These discussions form part of this Directors' Report.

RESERVES

Movements during the year in the reserves of the Group and the Company are set out in the consolidated statement of changes in equity on pages 124 and 125 and note 30 to the consolidated financial statements respectively.

INVESTMENT PROPERTIES

All of the Group's investment properties were revalued by an independent professional valuer as at 31 December 2018 using the fair value model. Details of movements during the year in the investment properties of the Group are set out in note 15 to the consolidated financial statements.

Details of the major investment properties of the Group as at 31 December 2018 are set out in the section under Schedule of Principal Properties of this Annual Report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 29 to the consolidated financial statements.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and meets the requirements of the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

Further information on the Company's corporate governance practices is set out in the following separate reports:

(a) "Corporate Governance Report" (pages 58 to 79) – this gives detailed information on the Company's compliance with the Corporate Governance Code and the relevant laws and regulations, its adoption of local and international best practices, Director's service contracts, and Directors' interests in shares, contracts and competing business;

(b) "Audit and Risk Management Committee Report" (pages 80 to 84) – this sets out the terms of reference, work performed and findings of the Audit and Risk Management Committee for the year;

(c) "Remuneration Committee Report" (pages 85 to 93) – this gives detailed information on Directors' remuneration and interests (including information on Directors' compensation);

(d) "Nomination Committee Report" (pages 94 to 96) – this sets out the terms of reference, work performed and findings of the Nomination Committee for the year;

(e) "Strategy Committee Report" (page 97) – this sets out the terms of reference, work performed and findings of the Strategy Committee for the year; and

(f) "Risk Management and Internal Control Report" (pages 98 to 105) – this sets out the Company's framework for risk assessment and internal control (including control environment, control activities and work completed during the year).

Further information on the Company's sustainability policies and practices is contained in the separate 2018 Sustainability Report, which is available on the Company's website: www.hysan.com.hk.

THE BOARD

The Board is currently chaired by Lee Irene Yun-Lien, Chairman. There are 9 other Non-Executive Directors.

Wong Ching Ying Belinda was appointed as an Independent Non-Executive Director, effective from 18 December 2018.

Lee Irene Yun-Lien and Yang Chi Hsin Trevor served as alternate Directors to Lee Anthony Hsien Pin and Jebsen Hans Michael, respectively, throughout the year.

Save as otherwise mentioned above, other Directors whose names and biographies appear on pages 52 to 56 have been Directors of the Company throughout the year and up to the date of this report.

According to Article 97 of the Company's current Articles of Association ("Articles"), a Director appointed either to fill a casual vacancy or as an addition to the Board shall hold office only until the next following Annual General Meeting ("AGM").

Under Article 114 of the Company's Articles, one-third (or such other number as may be required under applicable legislation) of the Directors; and where the applicable number is not an integral number, to be rounded upwards, who have been longest in office shall retire from office by rotation at each AGM. A retiring Director is eligible for re-election.

Particulars of Directors seeking re-election at the forthcoming AGM are set out in the related circular to shareholders.

The Company received from each Independent Non-Executive Director an annual confirmation of his or her independence with regard to each of the factors referred to in Rule 3.13 (1) to (8) of the Listing Rules, and the Company considered all of them to be independent. The Nomination Committee also reviewed Director independence in a meeting held in November 2018. (See "Corporate Governance Report" and "Nomination Committee Report".)

The names of Directors who have served on the boards of the subsidiaries of the Company during the year and up to the date of this report are available on the Company's website: www.hysan.com.hk.

DIRECTORS' INTERESTS IN SHARES

Details of the interests and short positions of the Directors in the shares, underlying shares or debentures of the Company and its associated corporations are set out in "Corporate Governance Report" on pages 58 to 79.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As at 31 December 2018, the interests or short positions of substantial shareholders and other persons of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company, were as follows:

Aggregate long positions in shares and underlying shares of the Company

Name	Capacity	Number of ordinary shares held	% of the total no. of issued shares *(Note)*
Lee Hysan Company Limited	Beneficial owner	433,130,735	41.39
Silchester International Investors LLP	Investment manager	83,489,000	7.98
First Eagle Investment Management, LLC	Investment manager	52,460,214	5.01

Note:

The percentage was compiled based on the total number of issued shares of the Company as at 31 December 2018 (i.e. 1,046,501,891 ordinary shares).

Apart from the above, no other interest or short position in the shares or underlying shares of the Company were recorded in the register that is required to be kept under section 336 of the SFO as at 31 December 2018.

RELATED PARTY TRANSACTIONS

The Group entered into certain transactions with parties regarded as "Related Parties" under applicable accounting principles. These mainly relate to contracts entered into by the Group in the ordinary course of business and that were negotiated on normal commercial terms and on an arm's length basis. Further details are set out in note 35 to the consolidated financial statements.

Some of these transactions also constituted "Continuing Connected Transactions" under the Listing Rules, as identified below.

CONTINUING CONNECTED TRANSACTIONS

Certain transactions entered into by the Group constituted continuing connected transactions that were subject to the notification and announcement requirements but exempt from the circular and shareholders' approval requirements under Rule 14A.76(2) of the Listing Rules during the year (the "Transactions"). Details of the Transactions required to be disclosed are set out as follows:

I. Leases granted by the Group

Lee Garden Two, 28 Yun Ping Road, Hong Kong ("Lee Garden Two")

The following lease arrangements were entered into by Barrowgate Limited ("Barrowgate"), a 65.36% subsidiary of the Company and the property owner of Lee Garden Two, as landlord, with the following connected persons:

Connected person	Date of agreement	Term	Premises	Annual consideration *(Note a)*
(i) Jebsen and Company Limited *(Note b)*	(1) 28 March 2013 (Existing Lease and Carpark Licence Agreements) (as amended *– Notes c & f*)	5 years commencing from 1 September 2013 *(Note d)*	Office units on the 28th, 30th and 31st Floors and 3 carparking spaces	2018: HK$37,949,209 2019: HK$38,723,268 2020: HK$38,723,268 2021: HK$25,815,512 (on pro-rata basis) *(Note m)*
	(2) 22 June 2018 (Lease, Carpark Licence Agreements and Licence Agreements to renew, among others, item (1)) *(Notes e & f)*	Renewed for further 3 years commencing from 1 September 2018	Office units on the 28th, 30th and 31st Floors, 4 carparking spaces and 2 portions of spaces near the carparking spaces	
(ii) Treasure Matrix Limited *(Notes g & h)*	(1) 28 March 2014 (Lease and Licence Agreements) (as amended *– Notes i & k*)	5 years commencing from 28 March 2014 *(Note d)*	Shop Nos. 308 & 311 on the 3rd Floor (connected to an outdoor garden)	2018: HK$3,590,119 (on pro-rata basis) *(Note n)*
	(2) 27 March 2017 (Licence Agreement) *(Notes j & k)*	1 year, 3 months and 27 days commencing from 1 December 2017	Portion 1 on the 3rd Floor	
	(3) 27 March 2017 (Licence Agreement) *(Notes j & k)*	1 year, 4 months and 27 days commencing from 1 November 2017	Various storerooms and advertising spaces	
	(4) 28 June 2018 (Surrender Agreement) *(Note l)*	Early termination with effect from 15 July 2018	All premises set out in items (1) to (3)	

CONTINUING CONNECTED TRANSACTIONS continued

II. Provision of leasing and property management services to a non wholly-owned subsidiary regarding Lee Garden Two

(a) The following management agreement was entered into by Hysan Leasing Company Limited, a wholly-owned subsidiary of the Company, with Barrowgate for the provision of leasing, marketing and lease administration services in respect of Lee Garden Two:

Connected person	Date of agreement	Term	Premises	Consideration received during the year
Barrowgate Limited	22 March 2016	3 years commencing from 1 April 2016	Whole premises of Lee Garden Two	HK$27,941,068 *(Note o)*

(b) The following management agreement was entered into by Hysan Property Management Limited, a wholly-owned subsidiary of the Company, with Barrowgate for the provision of property management services to Lee Garden Two:

Connected person	Date of agreement	Term	Premises	Consideration received during the year
Barrowgate Limited	22 March 2016	3 years commencing from 1 April 2016	Whole premises of Lee Garden Two	HK$4,234,637 *(Note o)*

Notes:

(a) The annual considerations were based on current rates of rental (including estimated turnover rent, where applicable), operating charges, (for retail premises) promotion levies and licence fees for each of the relevant financial years as provided in the relevant agreements. The rental, operating charges, promotion levies and licence fees (as the case may be) are payable monthly in advance.

(b) Jebsen and Company Limited ("Jebsen and Company") is a beneficial substantial shareholder of Barrowgate and has an equity interest of 10% in Barrowgate. Jebsen Hans Michael, Non-Executive Director of the Company, is a controlling shareholder of Jebsen and Company.

(c) On 16 August 2016, a memorandum was entered into, pursuant to which the rent for the period from 1 September 2016 to 31 August 2018 was reviewed and revised to the then prevailing market rent.

(d) The terms of the agreements mentioned under I (i)(1) and I (ii)(1) above exceed 3 years. According to the Listing Rules requirement, an independent financial adviser to the Board was engaged in each case. The advisor formed the view, in each case, that a term with a duration period longer than 3 years was required and it was normal business practice for leases of this type to be of such duration.

(e) The Hysan Group has also been leasing to Jebsen and Company a carparking space and 2 portions of spaces at Lee Garden Two. These transactions on their own constituted continuing connected transactions of the Company, and as such were fully exempted from Chapter 14A requirements since the annual consideration under the agreements fall below the applicable de minimis threshold under the Listing Rules. For the purposes of renewing these existing lease and licence agreements, on 22 June 2018, new lease and licence agreements were entered into to renew the leasing of office units on 28th, 30th and 31st Floors, and the licensing of 4 car parking spaces and 2 portions of spaces near the car parking spaces, at Lee Garden Two.

(f) As the aggregated annual consideration under the lease and various licence agreements entered into with Jebsen and Company exceeds the applicable de minimis threshold under the Listing Rules, they constituted continuing connected transactions of the Company, being subject to announcement requirements but exempted from independent shareholders' approval requirements.

(g) Treasure Matrix Limited ("Treasure Matrix") is a wholly-owned subsidiary of the Company.

(h) Under these transactions, Barrowgate was considered a connected person of the Company under the Listing Rules by virtue of it being a non wholly-owned subsidiary of the Company and also by having a substantial shareholder which is an associate of Jebsen Hans Michael, Non-Executive Director of the Company.

(i) On 27 March 2017, a memorandum was entered into, pursuant to which the rent for the period from 28 March 2017 to 27 March 2019 was reviewed and revised to the then prevailing market rent.

(j) The licence agreements on their own constituted continuing connected transactions of the Company. These were fully exempted from Chapter 14A requirements as the annual consideration under the licence agreements fall below the applicable de minimis threshold under the Listing Rules.

(k) As the aggregated annual consideration under the lease and various licence agreements entered into with Treasure Matrix exceeds the applicable de minimis threshold under the Listing Rules, they constituted continuing connected transactions of the Company, being subject to announcement requirements but exempted from independent shareholders' approval requirements.

(l) On 28 June 2018, a surrender agreement was entered into to terminate the lease and various licence agreements with effect from the surrender date (i.e. 15 July 2018).

(m) Office monthly operating charges for Lee Garden Two were revised with effect from 1 January 2018 and 1 January 2019.

(n) Retail monthly operating charges and promotion levies for Lee Garden Two were revised with effect from 1 January 2018.

(o) These represent the actual consideration received for the year ended 31 December 2018, calculated on the basis of the fee schedules as prescribed in the respective management agreements.

CONTINUING CONNECTED TRANSACTIONS continued

All the Transactions were entered in the ordinary and usual course of business of the respective companies within the Group, after due negotiations on an arm's length basis with reference to the prevailing market conditions.

Announcements were published regarding the Transactions in accordance with the Listing Rules. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules insofar as they are applicable.

Pursuant to Rule 14A.56 of the Listing Rules, the Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 111 to 112 of the Annual Report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

The Company's Internal Audit has reviewed the Transactions and the related internal control procedures, and concluded that the internal control procedures are adequate and effective. All Independent Non-Executive Directors of the Company have reviewed the Transactions and the report of the auditor and confirmed that the respective contracts and terms of the Transactions are:

1. in the ordinary and usual course of business of the Group;
2. on normal commercial terms; and
3. in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

INTEREST IN CONTRACTS OF SIGNIFICANCE

The lease, carpark licence agreements and licence agreements between Jebsen and Company and Barrowgate is considered a contract of significance under paragraph 15 of Appendix 16 to the Listing Rules due to its annual consideration having a percentage ratio of 0.98% from the calculation of the revenue test (the percentage ratios for assets ratio and consideration ratio are 0.04% and 0.10% respectively). Details of the transaction are set out under I(i) of "Continuing Connected Transactions".

MAJOR CUSTOMERS AND SUPPLIERS

During the year, 23.99% of the aggregate amount of purchases was attributable to the Group's 5 largest suppliers, with the largest supplier accounting for 8.46% to the Group's total purchases. The aggregate amount of turnover attributable to the Group's 5 largest customers was less than 30% (being the Listing Rule disclosure threshold) of total turnover of the Group.

None of the Directors, their close associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued shares) had any interest in the Group's 5 largest suppliers.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2018, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

ISSUANCE OF SECURITIES

During the year ended 31 December 2018, 677,000 shares were issued by the Company as a result of the exercise of share options granted under the share option schemes of the Company. For further details, please refer to the paragraphs headed "Movement of share options" in the Remuneration Committee Report.

During the year, HK$300 million 3.66% Fixed Rate Note which will be due in November 2025 has been issued for general corporate purposes under the US$1.5 billion Medium Term Note Programme ("MTN Programme"), and is unconditionally and irrevocably guaranteed by the Company. The issuer under the MTN Programme is Hysan (MTN) Limited, a company incorporated in the British Virgin Islands and a direct wholly-owned subsidiary of the Company. For further details of the above mentioned Fixed Rate Note, please refer to note 27 to the consolidated financial statements. Save as disclosed above, the Group has not issued any debentures during the year.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this report as required under the Listing Rules.

DONATIONS

During the year, the Group made donations of approximately HK$0.3 million to charitable and non-profit-making organisations.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred by him or her in the execution of the duties of his or her office or in relation thereto. The Directors and Officers Liability Insurance ("D&O Insurance") taken out by the Company throughout the year provides adequate cover for such indemnities to all the Directors of the Company and its subsidiaries. The relevant provisions in the Articles and the D&O Insurance were in force during the financial year ended 31 December 2018 and as of the date of this report.

AUDITOR

A resolution for the re-appointment of Deloitte Touche Tohmatsu as auditor of the Company is to be proposed at the 2019 AGM.

By Order of the Board
Lee Irene Yun-Lien
Chairman

Hong Kong, 21 February 2019

4 Financial Statements, Valuation and Other Information

Directors' Responsibility for the Financial Statements

The Hong Kong Companies Ordinance requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of their respective profit or loss for the year then ended. In preparing the financial statements, the Directors are required to:

(a) select suitable accounting policies and apply them on a consistent basis, making judgments and estimates that are prudent, fair and reasonable;

(b) state the reasons for any significant departure from accounting standards; and

(c) prepare the financial statements on the going concern basis, unless it is not appropriate to presume that the Company and the Group will continue in business for the foreseeable future.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report

Deloitte. 德勤

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF HYSAN DEVELOPMENT COMPANY LIMITED
(incorporated in Hong Kong with limited liability)

Opinion
We have audited the consolidated financial statements of Hysan Development Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 121 to 184, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including significant accounting policies and financial risk management.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion
We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters continued

Valuation of investment properties

We identified the valuation of investment properties as a key audit matter due to the inherent level of subjective judgements and estimates required in determining the fair values.

The Group's investment property portfolio comprises retail, office and residential properties mainly located in Causeway Bay, Hong Kong and is stated at fair value of HK$77,442 million, accounting for approximately 89% of the Group's total assets as at 31 December 2018 with a fair value gain of HK$3,532 million recognised in the consolidated statement of profit or loss for the year then ended.

All of the Group's investment properties are measured using the fair value model based on a valuation performed by an independent qualified professional valuer (the "Valuer"). As disclosed in note 3 of the Notes to the Consolidated Financial Statements section of the consolidated financial statements, in determining the fair values of the Group's investment properties, the Valuer has applied a market value basis which involves, inter-alia, certain estimates, including appropriate capitalisation rates and reversionary income potential of the investment properties in determining the fair values.

How our audit addressed the key audit matter

Our procedures in relation to the valuation of investment properties included:

- Evaluating the competence, capabilities, and objectivity of the Valuer and obtaining an understanding of the Valuer's scope of work and their terms of engagement;
- Evaluating the appropriateness of the Valuer's valuation approaches to assess if they meet the requirements of the HKFRSs and industry norms;
- Challenging the reasonableness of the key assumptions applied based on available market data and our knowledge of the property industry in Hong Kong; and
- Obtaining the detailed work of the Valuer on selected investment properties to evaluate the accuracy and relevance of key data inputs underpinning the valuation, such as rental income, term of existing leases by comparing them to the existing leases summary of the Group or reversionary income potential by comparing fair market rents estimated by the Valuer against recent lease renewals and evaluating whether capitalisation rates adopted are comparable to the market.

Other Information

The Directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements continued

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Lee Wing Cheong, Wilfred.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

21 February 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

	Notes	2018 HK$ million	2017 HK$ million
Turnover	4	**3,890**	3,548
Property expenses		**(523)**	(449)
Gross profit		**3,367**	3,099
Other income	9	**–**	261
Investment income	6	**78**	69
Other gains and losses		**(16)**	–
Administrative expenses		**(227)**	(247)
Finance costs	7	**(222)**	(158)
Change in fair value of investment properties		**3,532**	853
Share of results of associates		**288**	220
Profit before taxation		**6,800**	4,097
Taxation	8	**(481)**	(484)
Profit for the year	9	**6,319**	3,613
Profit for the year attributable to:			
Owners of the Company		**6,033**	3,636
Non-controlling interests		**286**	(23)
		6,319	3,613
Earnings per share (expressed in HK cents)	14		
Basic		**576.66**	347.78
Diluted		**576.39**	347.68

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	Note	2018 HK$ million	2017 HK$ million
Profit for the year		**6,319**	3,613
Other comprehensive (expenses) income	10		
Item that will not be reclassified subsequently to profit or loss:			
Gains on revaluation of properties held for own use		**47**	38
Items that may be reclassified subsequently to profit or loss:			
Net adjustments to hedging reserve		**(5)**	(55)
Share of translation reserve of an associate		**(172)**	240
		(177)	185
Other comprehensive (expenses) income for the year (net of tax)		**(130)**	223
Total comprehensive income for the year		**6,189**	3,836
Total comprehensive income attributable to:			
Owners of the Company		**5,903**	3,859
Non-controlling interests		**286**	(23)
		6,189	3,836

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 HK$ million	2017 HK$ million
Non-current assets			
Investment properties	15	**77,442**	72,470
Property, plant and equipment	16	**747**	751
Investments in associates	18	**3,708**	3,779
Loans to associates	18	**11**	10
Investment in a joint venture	19	**145**	147
Loans to a joint venture	19	**1,062**	982
Fund investment	20	**294**	21
Term notes	21	**–**	228
Other financial assets	22	**1**	2
Other receivables	23	**386**	332
		83,796	78,722
Current assets			
Accounts and other receivables	23	**203**	226
Term notes	21	**227**	509
Other financial assets	22	**–**	1
Time deposits	24	**748**	628
Cash and cash equivalents	24	**2,069**	2,034
		3,247	3,398
Current liabilities			
Accounts payable and accruals	25	**873**	736
Other financial liabilities	22	**–**	1
Deposits from tenants		**331**	389
Amounts due to non-controlling interests	26	**223**	327
Borrowings	27	**300**	150
Taxation payable		**108**	158
		1,835	1,761
Net current assets		**1,412**	1,637
Total assets less current liabilities		**85,208**	80,359
Non-current liabilities			
Borrowings	27	**6,022**	6,035
Other financial liabilities	22	**26**	30
Deposits from tenants		**669**	506
Deferred taxation	28	**854**	787
		7,571	7,358
Net assets		**77,637**	73,001
Capital and reserves			
Share capital	29	**7,718**	7,692
Reserves		**66,713**	62,261
Equity attributable to owners of the Company		**74,431**	69,953
Non-controlling interests		**3,206**	3,048
Total equity		**77,637**	73,001

The consolidated financial statements on pages 121 to 184 were approved and authorised for issue by the Board of Directors on 21 February 2019 and are signed on its behalf by:

Lee Irene Y.L.	**Lee T.H. Michael**
Director	Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the Company		
	Share capital HK$ million	Share options reserve HK$ million	General reserve HK$ million
As at 1 January 2017	7,673	24	100
Profit for the year	–	–	–
Net losses arising from hedging instruments	–	–	–
Reclassification adjustments for net losses included in profit or loss	–	–	–
Gain on revaluation of properties held for own use	–	–	–
Deferred taxation arising on revaluation of properties held for own use *(note 28)*	–	–	–
Share of translation reserve of an associate	–	–	–
Total comprehensive (expenses) income for the year	–	–	–
Issue of shares under share option schemes	19	(4)	–
Recognition of equity-settled share-based payments	–	4	–
Forfeiture of share options	–	(3)	–
Dividends paid during the year *(note 13)*	–	–	–
Deemed acquisition of additional equity interest in a subsidiary	–	–	(4)
As at 31 December 2017	7,692	21	96
Opening adjustment on HKFRS 9 *(note 2)*	**–**	**–**	**–**
As at 1 January 2018 (restated)	**7,692**	**21**	**96**
Profit for the year	**–**	**–**	**–**
Net losses arising from hedging instruments	**–**	**–**	**–**
Reclassification adjustments for net losses included in profit or loss	**–**	**–**	**–**
Gain on revaluation of properties held for own use	**–**	**–**	**–**
Deferred taxation arising on revaluation of properties held for own use *(note 28)*	**–**	**–**	**–**
Share of translation reserve of an associate	**–**	**–**	**–**
Total comprehensive (expenses) income for the year	**–**	**–**	**–**
Issue of shares under share option schemes	**26**	**(5)**	**–**
Recognition of equity-settled share-based payments	**–**	**4**	**–**
Forfeiture of share options	**–**	**(1)**	**–**
Dividends paid during the year *(note 13)*	**–**	**–**	**–**
As at 31 December 2018	**7,718**	**19**	**96**

Attributable to owners of the Company							
Investments revaluation reserve HK$ million	Hedging reserve HK$ million	Properties revaluation reserve HK$ million	Translation reserve HK$ million	Retained profits HK$ million	Total HK$ million	Non-controlling interests HK$ million	Total HK$ million
1	12	371	38	59,271	67,490	3,195	70,685
–	–	–	–	3,636	3,636	(23)	3,613
–	(49)	–	–	–	(49)	–	(49)
–	(6)	–	–	–	(6)	–	(6)
–	–	46	–	–	46	–	46
–	–	(8)	–	–	(8)	–	(8)
–	–	–	240	–	240	–	240
–	(55)	38	240	3,636	3,859	(23)	3,836
–	–	–	–	–	15	–	15
–	–	–	–	–	4	–	4
–	–	–	–	3	–	–	–
–	–	–	–	(1,411)	(1,411)	(128)	(1,539)
–	–	–	–	–	(4)	4	–
1	(43)	409	278	61,499	69,953	3,048	73,001
–	–	–	–	(6)	(6)	–	(6)
1	(43)	409	278	61,493	69,947	3,048	72,995
–	–	–	–	6,033	6,033	286	6,319
–	2	–	–	–	2	–	2
–	(7)	–	–	–	(7)	–	(7)
–	–	56	–	–	56	–	56
–	–	(9)	–	–	(9)	–	(9)
–	–	–	(172)	–	(172)	–	(172)
–	(5)	47	(172)	6,033	5,903	286	6,189
–	–	–	–	–	21	–	21
–	–	–	–	–	4	–	4
–	–	–	–	1	–	–	–
–	–	–	–	(1,444)	(1,444)	(128)	(1,572)
1	(48)	456	106	66,083	74,431	3,206	77,637

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 HK$ million	2017 HK$ million
Operating activities			
Profit before taxation		**6,800**	4,097
Adjustments for:			
Other income		**–**	(261)
Net interest income		**(78)**	(69)
Other gains and losses		**16**	–
Loss on disposal of property, plant and equipment		**–**	7
Depreciation of property, plant and equipment		**17**	22
Share-based payment expenses		**4**	4
Finance costs		**222**	158
Change in fair value of investment properties		**(3,532)**	(853)
Share of results of associates		**(288)**	(220)
Operating cash flows before movements in working capital		**3,161**	2,885
Increase in accounts and other receivables		**(102)**	(12)
Increase in accounts payable and accruals		**60**	49
Increase (decrease) in deposits from tenants		**105**	(22)
Cash generated from operations		**3,224**	2,900
Hong Kong Profits Tax paid		**(475)**	(416)
Hong Kong Profits Tax refunded		**2**	6
Net cash from operating activities		**2,751**	2,490
Investing activities			
Payments in respect of investment properties		**(1,239)**	(2,126)
Purchases of property, plant and equipment		**(26)**	(14)
Advance to associates		**(1)**	(10)
Dividends received from an associate		**184**	178
Advance to a joint venture		**(56)**	(63)
Repayment from a joint venture		**–**	998
Payment in respect of fund investment		**(290)**	(21)
Proceeds upon maturity of term notes		**500**	431
Interest received		**58**	38
Additions to time deposits with original maturity over three months		**(1,722)**	(2,647)
Proceeds upon maturity of time deposits with original maturity over three months		**1,602**	3,282
Net cash (used in) from investing activities		**(990)**	46
Financing activities			
Payment of finance costs		**(221)**	(215)
New bank loans	31	**–**	1,410
Repayment of bank loans	31	**–**	(1,540)
Issuance of fixed rate note	31	**300**	–
Repayment of fixed rate note	31	**(150)**	–
Repayment to non-controlling interest of a subsidiary		**(104)**	–
Proceeds on exercise of share options		**21**	15
Dividends paid		**(1,444)**	(1,411)
Dividends paid to non-controlling interests of a subsidiary		**(128)**	(128)
Net cash used in financing activities		**(1,726)**	(1,869)
Net increase in cash and cash equivalents		**35**	667
Cash and cash equivalents as at 1 January		**2,034**	1,367
Cash and cash equivalents as at 31 December	24	**2,069**	2,034

Significant Accounting Policies

For the year ended 31 December 2018

These consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the Hong Kong Companies Ordinance ("CO"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal accounting policies adopted are as follows:

1. BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity attributable to owners of the Company therein.

Total comprehensive income and expenses of a subsidiary are attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

2. INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of parties sharing control.

The results, assets and liabilities of associate or joint venture are incorporated in the consolidated financial statements using the equity method of accounting. The financial statements of associate or joint venture used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investments in associate or joint venture are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or joint venture equals or exceeds its interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate or joint venture.

2. INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE continued

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When an objective evidence exists, the entire carrying amount of the investment is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less cost of disposal) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Where a group entity transacts with its associate or joint venture, profits or losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of the interests in the associate or joint venture that are not related to the Group.

3. INVESTMENT PROPERTIES

Investment properties are properties held to earn rental and/or for capital appreciation including properties under redevelopment for such proposes.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

Construction costs incurred for investment properties under redevelopment are capitalised as part of the carrying amount of the investment properties under redevelopment. Investment properties under redevelopment are measured at fair value at the end of the reporting period. Any difference between the fair value of the investment properties under redevelopment and their carrying amount is recognised in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purposes are stated at cost or fair value less subsequent accumulated depreciation and accumulated impairment losses.

Any revaluation increase arising on revaluation of land and buildings is recognised in other comprehensive income and accumulated in the properties revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on revaluation of an asset is recognised in profit or loss to the extent that it exceeds the balance, if any, on the properties revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the corresponding revaluation surplus is transferred to retained profits.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item (including the relevant prepaid lease payments) at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

Depreciation is recognised so as to write off the cost or fair value of items of property, plant and equipment less their estimated residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

5. IMPAIRMENT OF NON-FINANCIAL ASSETS

At the end of the reporting period, the Group reviews the carrying amounts of their assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, except for certain properties which are carried at revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

6. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value except for accounts receivables arising from contract with customers which are initially measured in accordance with HKFRS 15 "Revenue from Contracts with Customers" since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Financial assets

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

(a) Classification of financial assets

Debt instruments and hybrid contracts that meet the following conditions are subsequently measured at amortised cost less impairment loss (except for debt investments that are designated as at FVTPL on initial recognition):

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

(i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Interest income is recognised on an effective interest basis for debt instruments measured subsequently at amortised cost and is included in the investment income as disclosed in note 6 of the Notes to the Consolidated Financial Statements section.

6. FINANCIAL INSTRUMENTS continued

Financial assets continued

(a) Classification of financial assets continued

(ii) Financial assets at FVTPL

Financial assets at FVTPL include derivatives that are not designated and effective as hedging instruments, club debentures and fund investment.

Investments in equity instruments are classified as FVTPL, unless the Group designates such investment that is not held for trading as at fair value through other comprehensive income ("FVTOCI") on initial recognition.

Debt instruments that do not meet the amortised cost criteria (see (a) above) are measured at FVTPL. In addition, debt instruments that meet the amortised cost criteria may be designated as at FVTPL. A debt instrument may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Debt instruments are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as at FVTPL on initial recognition is not allowed.

Financial assets at FVTPL are measured at fair value at the end of the reporting period, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss is included in other gains and losses. Fair value is determined in the manner described in note 4 of the Financial Risk Management section.

The Group has not designated any debt instrument as at FVTPL or reclassified any debt instruments to or from FVTPL since the application of the 2010 version of the Hong Kong Financial Reporting Standard ("HKFRS") 9 "Financial Instruments".

Interest income on debt instruments at FVTPL is included in the other gains or losses described above.

(b) Impairment of financial assets

Impairment under HKAS 39 prior to 1 January 2018

Financial assets subsequently measured at amortised cost are assessed for indicators of impairment at the end of the reporting period. These financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after their initial recognition, the estimated future cash flows have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, observable changes in national or local economic conditions that correlate with default on receivables.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all categories with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

6. FINANCIAL INSTRUMENTS continued

Financial assets continued

(b) Impairment of financial assets continued

Impairment under HKAS 39 prior to 1 January 2018 continued

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date of impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment under Expected Credit Losses ("ECL") model at and after 1 January 2018

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on both quantitative and qualitative information combined with current conditions and forward-looking analysis. The Group evaluates the financial instruments on a collective basis, taking into account the instrument type, maturity date, and other relevant information with reference to the default rates of the counter parties of the instruments.

The Group recognises lifetime ECL for accounts receivables. The ECL on these assets are assessed individually for debtors with significant balances. For financial assets at amortised cost, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Measurement and recognition of ECL

The measurement of ECL is a function of probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the discount rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKAS 17.

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected loss is the present value of the expected payment to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

Interest income is calculated based on the gross carrying amount of the financial assets unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amounts, with the exception of account receivables, term notes and loans to a joint venture where the corresponding adjustment is recognised through a loss allowance account.

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with HKFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

6. FINANCIAL INSTRUMENTS continued

Financial assets continued

(c) Derecognition of financial assets

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset, except for a financial asset that is classified as FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of a financial asset that is classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

Financial liabilities and equity instruments

(a) Classification and measurement

Financial liabilities and equity instruments issued by a group entity are classified as financial liabilities or equity instruments according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into (i) financial liabilities at FVTPL and (ii) other financial liabilities subsequently measured at amortised cost. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

(i) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis for financial liabilities, other than those financial liabilities at FVTPL, of which the interest expense is included in other gains or losses.

(ii) Financial liabilities at FVTPL

Financial liabilities at FVTPL, representing those as held for trading, comprise derivatives that are not designated and effective as hedging instruments.

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise.

(iii) Financial liabilities at amortised cost

Financial liabilities (including accounts payable and accruals, amounts due to non-controlling interests and borrowings) are subsequently measured at amortised cost, using the effective interest method. Interest expense that is not capitalised as part of costs of an asset is included in finance costs as disclosed in note 7 of the Notes to the Consolidated Financial Statements section.

(iv) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Consideration paid to repurchase the Company's own equity instruments is deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

(v) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contract is measured initially at their fair values. It is subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with HKFRS 9 (since 1 January 2018)/the amount of obligation determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" (before application of HKFRS 9 on 1 January 2018); and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

6. FINANCIAL INSTRUMENTS continued

Financial liabilities and equity instruments continued

(b) Derecognition of financial liabilities

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Derivative financial instruments and hedging

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including foreign exchange forward contracts. Further details of derivative financial instruments are disclosed in note 22 of the Notes to the Consolidated Financial Statements section.

Derivatives are initially recognised at fair value at the date a derivative contract is entered and are subsequently remeasured to their fair values at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Hedge accounting

The Group designates certain derivatives as hedging instruments for cash flow hedges.

At the inception of the hedging relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meets all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

Note 22 of the Notes to the Consolidated Financial Statements section sets out details of the fair values of the derivative instruments used for hedging purposes.

(a) Cash flow hedges

The effective portion of changes in the fair values of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in other gains or losses.

Amounts previously recognised in other comprehensive income and accumulated in hedging reserve are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the consolidated statement of profit or loss as the recognised hedged item.

Upon discontinuation of the hedging relationship of a cash flow hedge, any cumulative gain or loss accumulated in hedging reserve at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss.

(b) Discontinuation of hedges

The Group discontinues hedge accounting prospectively only when the hedging relationship (or a part of a hedging relationship) ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. Discontinuing hedge accounting can either affect a hedging relationship in its entirety or only a part of it (in which case hedge accounting continues for the remainder of the hedging relationship).

7. REVENUE RECOGNITION

The Group recognises revenue from the following major sources:

- Leasing of investment properties
- Provision of property management services

The Group's accounting policies for rental income are included under "Leases" and accounting policies for revenue from property management services are as below:

Prior to 1 January 2018
Revenue is measured at the fair value of the consideration received or receivable.

Management fee income is recognised when services are rendered.

Upon application of HKFRS 15 at 1 January 2018 and after
Revenue is measured at the fair value of the consideration received or receivable.

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents goods and services (or a bundle of goods or services) that are distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods or service.

Revenue from provision of property management services is recognised over time.

8. LEASES

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor
Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Contingent rent is recognised when earned. For early termination of leases, surrender compensation from tenant is recognised in profit or loss only upon fulfilment of all conditions set out in the surrender agreement.

9. FOREIGN CURRENCIES

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in translation reserve.

10. BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

11. RETIREMENT BENEFIT COSTS

Payments to the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

12. TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

(a) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(b) Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and an associate, and interests in a joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

12. TAXATION continued

(b) Deferred tax continued

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For the purposes of measuring deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment Property", such properties' value is presumed to be recovered through sale. Such a presumption is rebutted when the investment property is depreciable and is held within a business model of the Group whose business objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax for such investment properties are measured in accordance with the above general principles set out in HKAS 12 "Income Taxes" (i.e. based on the expected manner as to how the properties will be recovered).

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

13. EQUITY-SETTLED SHARE-BASED PAYMENTS TRANSACTIONS

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in share options reserve.

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share capital. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

14. FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as value in use in HKAS 36 "Impairment of Assets".

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

1. GENERAL

The Company is a public listed company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Shareholder Information" section of the annual report.

The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are property investment, management and development.

These consolidated financial statements are presented in Hong Kong dollars ("HKD"), which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied all of the new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for the Group's financial year beginning on 1 January 2018. Except as described below, the application of these new and amendments to HKFRSs had no material effect on the results and financial position of the Group for the current and/or prior accounting years.

HKFRS 15 "Revenue from Contracts with Customers"

In the current year, the Group has applied HKFRS 15 on limited retrospective basis. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations with no material effect on timing and amount of revenues recognised in these consolidated financial statements and balances related to contracts with customers as at 1 January 2018. Additional disclosure required under HKFRS 15 is included in the Notes to the Consolidated Financial Statements section.

HKFRS 9 "Financial Instruments"

Except for the 2010 versions of HKFRS 9 and the new requirements for hedge accounting issued in 2013 that were early applied by the Group in previous years, the Group has applied the remaining sections of HKFRS 9 and the related consequential amendments to other HKFRSs in the current year, whereas the introduction of new requirements for expected credit losses ("ECL") for financial assets is relevant to the Group.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the requirements for ECL retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement". Accounting policies resulting from application of HKFRS 9 are disclosed in the "Significant Accounting Policies" section.

Summary of financial impact arising from initial application of ECL model under HKFRS 9

As at 1 January 2018, the Directors of the Company reviewed and assessed the Group's existing financial assets at amortised cost for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with HKFRS 9. The results of the assessment and the impact thereof are detailed below.

The table below illustrates the effect of ECL model under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Loans to a joint venture HK$ million	Term notes HK$ million	Retained profits HK$ million
Closing balance at 31 December 2017 – HKAS 39	982	737	61,499
Remeasurement			
Impairment under ECL model	(5)	(1)	(6)
Opening balance at 1 January 2018 – HKFRS 9	977	736	61,493

Loss allowance for financial assets at amortised cost mainly comprise of loans to a joint venture and term notes, which is assessed on 12-month ECL basis and there had been no significant increase in credit risk since initial recognition.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") continued

New and amendments to HKFRSs that are mandatorily effective for the current year continued

HKFRS 9 "Financial Instruments" continued

Summary of financial impact arising from initial application of ECL model under HKFRS 9 continued

As at 1 January 2018, the additional credit loss allowance of HK$6 million has been recognised against retained profits. The additional loss allowance is charged against the respective asset.

All loss allowances for financial assets including loans to a joint venture and term notes as at 31 December 2017 reconcile to the opening carrying amount as at 1 January 2018 is as follows:

	Loss allowance for	
	Loans to a joint venture HK$ million	Term notes HK$ million
As at 31 December 2017	–	–
Amount remeasured through opening retained profits	5	1
As at 1 January 2018	5	1

The Group concluded that the probability of default of the time deposits, financial guarantee contracts and counterparty banks are insignificant and accordingly, no allowance for credit losses is provided as at 1 January 2018.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective.

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[4]
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKAS 28	Long-term interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[3]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]

[1] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

[2] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020, with earlier application permitted.

[3] Effective for annual periods beginning on or after 1 January 2020, with earlier application permitted.

[4] Effective for annual periods beginning on or after 1 January 2021, with earlier application permitted.

[5] Effective for annual periods beginning on or after a date to be determined.

Except for the new HKFRS mentioned below, the Directors of the Company anticipate that the application of these new standards, amendments and interpretations to HKFRSs will have no material impact on the Group's accounting policies, results and financial position.

The Group intends to elect the practical expedient not to reassess whether a contract is or contains a lease as at the date of initial application of HKFRS 16. The Group currently considers refundable deposits received of HK$1,000 million as at 31 December 2018 as obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of deposits may be adjusted to amortised cost upon application of HKFRS 16. Adjustments to refundable deposits received would be considered as advance lease payments from lessees. The Group expects that application of the HKFRS 16 will have no material impact to the net assets of the Group as at 1 January 2019 (date of initial application of HKFRS 16) for leases in which the Group is the lessor.

3. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in the "Significant Accounting Policies" section, the management of the Group is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value of investment properties

At the end of the reporting period, the Group's investment properties are stated at fair value of HK$77,442 million (2017: HK$72,470 million) based on the valuation performed by an independent qualified professional valuer. In determining the fair value, the valuer has applied a market value basis which involves, inter-alia, certain estimates, including appropriate capitalisation rates and reversionary income potential taking into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In relying on the valuation, management has exercised their judgement and is satisfied that the method of valuation is reflective of the current market conditions.

4. TURNOVER

Turnover represents gross rental income from leasing of investment properties and management fee income from provision of property management services for the year.

The Group's principal activities are property investment, management and development, and its turnover and results are principally derived from investment properties located in Hong Kong.

As at 31 December 2018, the Group has unsatisfied performance obligations in relation to the management fee income from provision of property management services with aggregate amount of the transaction price allocated approximately to HK$930 million subject to any further revision as set out in the existing contracts. Management expects that the revenue from such services are to be recognised in respective time bands similar to the future minimum lease payments that the Group has contracted with tenants as disclosed under note 34 of the Notes to the Consolidated Financial Statements section.

For revenue from provision of property management services recognised over time in Hong Kong, the categories for disaggregation of revenue are consistent with the segment disclosure under note 5 of the Notes to the Consolidated Financial Statements section.

5. SEGMENT INFORMATION

Based on the internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance, the Group's operating and reportable segments are as follows:

Retail segment – leasing of space and related facilities to a variety of retail and leisure operators

Office segment – leasing of high quality office space and related facilities

Residential segment – leasing of luxury residential properties and related facilities

Property development segment – development and sale of properties

Segment turnover and results

The following is an analysis of the Group's turnover and results by operating and reportable segment.

	Retail HK$ million	Office HK$ million	Residential HK$ million	Property development HK$ million	Consolidated HK$ million
For the year ended 31 December 2018					
Turnover					
Leasing of investment properties	**1,764**	**1,492**	**251**	**–**	**3,507**
Provision of property management services	**159**	**196**	**28**	**–**	**383**
Segment revenue	**1,923**	**1,688**	**279**	**–**	**3,890**
Property expenses	**(275)**	**(190)**	**(58)**	**–**	**(523)**
Segment profit	**1,648**	**1,498**	**221**	**–**	**3,367**
Investment income					**78**
Other gains and losses					**(16)**
Administrative expenses					**(227)**
Finance costs					**(222)**
Change in fair value of investment properties					**3,532**
Share of results of associates					**288**
Profit before taxation					**6,800**
For the year ended 31 December 2017					
Turnover					
Leasing of investment properties	1,781	1,210	236	–	3,227
Provision of property management services	144	149	28	–	321
Segment revenue	1,925	1,359	264	–	3,548
Property expenses	(253)	(142)	(54)	–	(449)
Segment profit	1,672	1,217	210	–	3,099
Other income					261
Investment income					69
Administrative expenses					(247)
Finance costs					(158)
Change in fair value of investment properties					853
Share of results of associates					220
Profit before taxation					4,097

5. SEGMENT INFORMATION continued

All of the segment turnover reported above is from external customers.

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies described in the "Significant Accounting Policies" section. Segment profit represents the profit earned by each segment without allocation of other income, investment income, other gains and losses, administrative expenses (including central administrative costs and directors' emoluments), finance costs, change in fair value of investment properties and share of results of associates. This is the measure reported to the chief operating decision maker of the Group for the purpose of resource allocation and performance assessment.

Segment assets

The following is an analysis of the Group's assets by operating and reportable segment.

	Retail HK$ million	Office HK$ million	Residential HK$ million	Property development HK$ million	Consolidated HK$ million
As at 31 December 2018					
Segment assets	**35,112**	**34,160**	**8,185**	**1,207**	**78,664**
Investments in and loans to associates					**3,719**
Fund investment					**294**
Other assets					**4,366**
Consolidated assets					**87,043**
As at 31 December 2017					
Segment assets	33,195	31,325	7,961	1,129	73,610
Investments in and loans to associates					3,789
Fund investment					21
Other assets					4,700
Consolidated assets					82,120

Segment assets represented the investment properties and accounts receivable of each segment and investment in and loans to a joint venture under property development segment without allocation of property, plant and equipment, investments in and loans to associates, fund investment, term notes, other financial assets, other receivables, time deposits and cash and cash equivalents. This is the measure reported to the chief operating decision maker of the Group for the purpose of monitoring segment performances and allocating resources between segments. The investment properties are included in segment assets at their fair values whilst the change in fair value of investment properties is not included in segment profit.

No segment liabilities analysis is presented as the Group's liabilities are monitored on a group basis.

Other than the investment in an associate, which operates in the People's Republic of China (the "PRC") with carrying amounts of HK$3,715 million (2017: HK$3,779 million), all the Group's assets are located in Hong Kong.

5. SEGMENT INFORMATION continued

Other segment information

	Retail HK$ million	Office HK$ million	Residential HK$ million	Property development HK$ million	Consolidated HK$ million
For the year ended 31 December 2018					
Additions to non-current assets	**1,133**	**202**	**28**	**–**	**1,363**
For the year ended 31 December 2017					
Additions to non-current assets	826	22	7	–	855
Additions to investment properties under redevelopment *(Note)*					1,129
					1,984

Note:

The investment properties under redevelopment were completed during the year ended 31 December 2017.

6. INVESTMENT INCOME

The following is an analysis of investment income:

	2018 HK$ million	2017 HK$ million
Interest income	**44**	51
Imputed interest income on interest-free loan to a joint venture	**29**	28
Reclassification of net losses (gain) from hedging reserve on financial instruments designated as cash flow hedges	**5**	(10)
	78	69

7. FINANCE COSTS

	2018 HK$ million	2017 HK$ million
Finance costs comprise:		
Interest on unsecured bank loans	**33**	22
Interest on unsecured fixed rate notes	**173**	175
Total interest expenses	**206**	197
Other finance costs	**11**	7
Less: amounts capitalised *(Note)*	**–**	(51)
	217	153
Net exchange losses on borrowings	**4**	19
Reclassification of net losses from hedging reserve on financial instruments designated as cash flow hedges	**(2)**	(16)
Medium Term Note Programme expenses	**3**	2
	222	158

Note:

During the year ended 31 December 2017, interest expenses have been capitalised to investment properties under redevelopment at an average interest rate of 3.41 % per annum.

8. TAXATION

	2018 HK$ million	2017 HK$ million
Current tax		
Hong Kong Profits Tax		
– current year	**425**	458
– overprovision in prior years	**(2)**	(2)
	423	456
Deferred tax *(note 28)*	**58**	28
	481	484

Hong Kong Profits Tax is calculated at 16.5 % of the estimated assessable profit for both years.

The taxation for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss as follows:

	2018 HK$ million	2017 HK$ million
Profit before taxation	**6,800**	4,097
Tax at Hong Kong Profits Tax rate of 16.5 %	**1,122**	676
Tax effect of share of results of associates	**(48)**	(36)
Tax effect of expenses not deductible for tax purposes	**40**	245
Tax effect of income not taxable for tax purposes	**(634)**	(393)
Tax effect of estimated tax losses not recognised	**11**	18
Recognition of previously unrecognised tax losses	**(8)**	(24)
Overprovision in prior years	**(2)**	(2)
Taxation for the year	**481**	484

In addition to the amount charged to the consolidated statement of profit or loss, deferred tax relating to the revaluation of the Group's properties held for own use has been charged directly to properties valuation reserve (see note 28 of the Notes to the Consolidated Financial Statements section).

9. PROFIT FOR THE YEAR

	2018 HK$ million	2017 HK$ million
Profit for the year has been arrived at after charging (crediting):		
Other income *(Note)*	**–**	(261)
Auditor's remuneration	**3**	3
Depreciation of property, plant and equipment	**17**	22
Gross rental income from investment properties including contingent rentals of HK$81 million (2017: HK$48 million)	**(3,507)**	(3,227)
Less:		
– Direct operating expenses arising from properties that generated rental income	**498**	400
– Direct operating expenses arising from properties that did not generate rental income	**25**	49
	(2,984)	(2,778)
Staff costs (including directors' emoluments)	**245**	271
Share of income tax of associates (included in share of results of associates)	**122**	94

Note:

The amount represented a one-off early surrender compensation received from a tenant which has been recognised as compensation income under other income during the year ended 31 December 2017 at the date of fulfilment of all conditions set out in the surrender agreement.

10. OTHER COMPREHENSIVE (EXPENSES) INCOME

	2018 HK$ million	2017 HK$ million
Other comprehensive (expenses) income comprises:		
Items that will not be reclassified subsequently to profit or loss:		
Revaluation of properties held for own use:		
Gains on revaluation of properties held for own use	**56**	46
Deferred taxation arising on revaluation	**(9)**	(8)
	47	38
Items that may be reclassified subsequently to profit or loss:		
Derivatives designated as cash flow hedges:		
Net gains (losses) arising during the year	**2**	(49)
Reclassification adjustments for net losses included in profit or loss	**(7)**	(6)
	(5)	(55)
Share of translation reserve of an associate	**(172)**	240
	(177)	185
Other comprehensive (expenses) income for the year (net of tax)	**(130)**	223

Tax effect relating to other comprehensive (expenses) income:

	2018			2017		
	Before-tax amount HK$ million	**Tax expense HK$ million**	**Net-of-tax amount HK$ million**	Before-tax amount HK$ million	Tax expense HK$ million	Net-of-tax amount HK$ million
Gains on revaluation of properties held for own use	**56**	**(9)**	**47**	46	(8)	38
Net adjustments to hedging reserve	**(5)**	**–**	**(5)**	(55)	–	(55)
Share of translation reserve of an associate	**(172)**	**–**	**(172)**	240	–	240
	(121)	**(9)**	**(130)**	231	(8)	223

11. DIRECTORS' EMOLUMENTS

	2018 HK$ million	2017 HK$ million
Directors' fees	**3**	3
Other emoluments		
Basic salaries, housing and other allowances	**8**	7
Bonus *(Notes d & f)*	**14**	13
Share-based payments	**2**	2
	27	25

11. DIRECTORS' EMOLUMENTS continued

The emoluments paid or payable to each of the Directors of the Company for the two years ended 31 December 2018 and 2017, calculated with reference to their employment as Directors of the Company or for provision of other services to the Company and the Group, are set out below:

	Directors' fees HK$'000 *(Note e)*	Basic salaries, housing and other allowances HK$'000 *(Note d)*	Bonus HK$'000 *(Note d)*	Share-based payments HK$'000 *(Note g)*	Retirement benefits scheme contributions HK$'000	Total HK$'000
For the year ended 31 December 2018						
Executive Director *(Note a)*						
Lee Irene Yun-Lien	–	7,694	14,616	1,762	18	24,090
Non-Executive Directors *(Note b)*						
Jebsen Hans Michael	270	–	–	–	–	270
Lee Anthony Hsien Pin	310	–	–	–	–	310
Lee Chien	290	–	–	–	–	290
Lee Tze Hau Michael	280	–	–	–	–	280
Independent Non-Executive Directors *(Note c)*						
Churchouse Frederick Peter	310	–	–	–	–	310
Fan Yan Hok Philip	420	–	–	–	–	420
Lau Lawrence Juen-Yee	260	–	–	–	–	260
Poon Chung Yin Joseph	465	–	–	–	–	465
Wong Ching Ying Belinda *(Note h)*	10	–	–	–	–	10
	2,615	7,694	14,616	1,762	18	26,705

	Directors' fees HK$'000 *(Note e)*	Basic salaries, housing and other allowances HK$'000 *(Note f)*	Bonus HK$'000 *(Note f)*	Share-based payments HK$'000 *(Note g)*	Retirement benefits scheme contributions HK$'000	Total HK$'000
For the year ended 31 December 2017						
Executive Director *(Note a)*						
Lee Irene Yun-Lien	–	7,103	13,150	1,872	18	22,143
Non-Executive Directors *(Note b)*						
Jebsen Hans Michael	255	–	–	–	–	255
Lee Anthony Hsien Pin	295	–	–	–	–	295
Lee Chien	275	–	–	–	–	275
Lee Tze Hau Michael	265	–	–	–	–	265
Lau Siu Chuen *(Note i)*	83	–	–	–	–	83
Independent Non-Executive Directors *(Note c)*						
Churchouse Frederick Peter	295	–	–	–	–	295
Fan Yan Hok Philip	405	–	–	–	–	405
Lau Lawrence Juen-Yee	245	–	–	–	–	245
Poon Chung Yin Joseph *(Note j)*	446	–	–	–	–	446
	2,564	7,103	13,150	1,872	18	24,707

11. DIRECTORS' EMOLUMENTS continued

Notes:

(a) The Executive Director's emoluments shown above were for the services in connection with the management of the affairs of the Company and the Group.

(b) The Non-Executive Directors' emoluments shown above were for the services as Directors of the Company.

(c) The Independent Non-Executive Directors' emoluments shown above were for the services as Directors of the Company.

(d) Year 2018:

The Remuneration Committee met in February 2018 to approve the 2018 annual fixed base salary and the annual special fee and determine the 2017 performance-based bonus of the Company's Executive Director.

The annual cash compensations of Lee Irene Yun-Lien, Chairman, remained at HK$15,386,000 based on market benchmark, and the jobholder's experience, qualification, and performance. Annual base salary of Lee Irene Yun-Lien remained unchanged at HK$5,130,000 and annual special fee in recognition of extra responsibilities she assumed was HK$2,564,000 (making up 50 % of the total package).

For the year ended 31 December 2018, the bonus of HK$14,616,000 represented the 2018 bonus approved by the Committee in January 2019.

(e) Last revision of annual Directors' fees for serving on the Board (effective 1 June 2018) were approved by shareholders at the 2018 AGM. Details are set out in Remuneration Committee Report.

Directors' fees are calculated on annual basis and paid semi-annually. For Directors not having served the full year on a position, the fees will be calculated and paid on pro rata basis.

Breakdown of Directors' fees of each of the Directors of the Company for the year ended 31 December 2018 is set out below:

	Board	Audit and Risk Management Committee *(Note k)*	Remuneration Committee	Strategy Committee *(Note l)*	Nomination Committee	**2018 Total**	2017 Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**	HK$'000
Executive Director							
Lee Irene Yun-Lien	–	–	–	–	–	**–**	–
Non-Executive Directors							
Jebsen Hans Michael	240	–	–	30	–	**270**	255
Lee Anthony Hsien Pin	240	70	–	–	–	**310**	295
Lee Chien	240	–	–	30	20	**290**	275
Lee Tze Hau Michael	240	–	40	–	–	**280**	265
Lau Siu Chuen *(Note i)*	–	–	–	–	–	**–**	83
Independent Non-Executive Directors							
Churchouse Frederick Peter	240	70	–	–	–	**310**	295
Fan Yan Hok Philip	240	70	60	30	20	**420**	405
Lau Lawrence Juen-Yee	240	–	–	–	20	**260**	245
Poon Chung Yin Joseph *(Note j)*	240	135	40	30	20	**465**	446
Wong Ching Ying Belinda *(Note h)*	10	–	–	–	–	**10**	–
	1,930	345	140	120	80	**2,615**	2,564

(f) Year 2017:

The Remuneration Committee met in February 2017 to approve the 2017 annual fixed base salary and the annual special fee and determine the 2016 performance-based bonus of the Company's Executive Director.

The annual cash compensations of Lee Irene Yun-Lien, Chairman, was revised to HK$15,386,000 based on market benchmark, and the jobholder's experience, qualification, and performance. Annual base salary of Lee Irene Yun-Lien was at HK$5,130,000 and annual special fee in recognition of extra responsibilities she assumed was HK$2,564,000 (making up 50 % of the total package).

For the year ended 31 December 2017, the bonus of HK$13,150,000 represented the 2017 bonus of HK$12,693,000 approved by the Committee in February 2018, and adjustments for 2016 bonus accrued in 2016. The performance-based bonus for 2016 approved by the Committee and paid to Executive Director in March 2017 was amounted to HK$10,257,000.

(g) Share-based payments are the fair values of share options granted to Executive Director, which are determined at the date of grant and expensed over the vesting period (except where options are forfeited before vesting), regardless of whether the Executive Director exercises the share options or not during the year. Details of the share option schemes are set out in note 37 of the Notes to the Consolidated Financial Statements section.

(h) Wong Ching Ying Belinda was appointed as an Independent Non-Executive Director with effect from 18 December 2018.

(i) Lau Siu Chuen ceased as a Non-Executive Director with effect from the conclusion of the 2017 AGM.

(j) Poon Chung Yin Joseph was appointed as a member of the Strategy Committee with effect from 22 February 2017.

(k) The Audit Committee was renamed as "Audit and Risk Management Committee" with effect from 21 February 2019.

(l) The Strategy Committee was discontinued and assumed by the Board with effect from 1 January 2019.

11. DIRECTORS' EMOLUMENTS continued

There was no arrangement under which a Director waived or agreed to waive any remuneration during both years.

There was no payment to a Director as inducement for Director to join the Group or compensation for the loss of office as a Director in connection with the management of the affairs of any member of the Group during both years.

Details of material interests of the Directors of the Company in transactions, arrangements or contracts entered into by subsidiaries of the Company are disclosed in the Directors' Report.

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2017: one) was Director of the Company, details of whose emoluments are included in note 11 of the Notes to the Consolidated Financial Statements section. The emoluments of all of the five individuals with the highest emoluments for the years ended 31 December 2018 and 2017 were as follows:

	2018 HK$ million	2017 HK$ million
Basic salaries, housing and other allowances	**21**	20
Bonus	**20**	17
Share-based payments *(Note)*	**3**	3
	44	40

Note:

Share-based payments are the fair values of share options granted to Executive Director and eligible employees, which are determined at the date of grant and expensed over the vesting period (except where options are forfeited before vesting), regardless of whether the Executive Director or eligible employees exercise the share options or not during the year.

Their emoluments are within the following bands:

	Number of individuals	
	2018	2017
HK$4,000,001 to HK$4,500,000	**1**	3
HK$4,500,001 to HK$5,000,000	**2**	1
HK$6,500,001 to HK$7,000,000	**1**	–
HK$22,000,001 to HK$22,500,000	**–**	1
HK$24,000,001 to HK$24,500,000	**1**	–
	5	5

Senior management (for the purpose of the Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules")) during the year are Executive Director and other members of senior management of the Group. Their emoluments are within the following bands.

	Number of individuals	
	2018	2017
HK$2,000,001 to HK$3,000,000	**1**	–
HK$3,000,001 to HK$4,000,000	**1**	–
HK$4,000,001 to HK$5,000,000	**3**	5
HK$6,000,001 to HK$7,000,000	**1**	–
HK$22,000,001 to HK$23,000,000	**–**	1
HK$24,000,001 to HK$25,000,000	**1**	–
	7	6

13. DIVIDENDS

(a) Dividends recognised as distribution during the year:

	2018 HK$ million	2017 HK$ million
2018 first interim dividend paid – HK27 cents per share	283	–
2017 first interim dividend paid – HK26 cents per share	–	272
2017 second interim dividend paid – HK111 cents per share	1,161	–
2016 second interim dividend paid – HK109 cents per share	–	1,139
	1,444	1,411

(b) Dividends declared after the end of the reporting period:

	2018 HK$ million	2017 HK$ million
Second interim dividend (in lieu of a final dividend) – HK117 cents per share (2017: HK111 cents per share)	1,224	1,161

The second interim dividend is not recognised as a liability as at 31 December 2018 because it has been declared after the end of the reporting period. It will be payable in cash.

14. EARNINGS PER SHARE

(a) Basic and diluted earnings per share

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	Earnings	
	2018 HK$ million	2017 HK$ million
Earnings for the purposes of basic and diluted earnings per share:		
Profit for the year attributable to owners of the Company	6,033	3,636

	Number of shares	
	2018	2017
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,046,189,778	1,045,495,841
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	501,942	283,181
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,046,691,720	1,045,779,022

In both years, the computation of diluted earnings per share does not assume the exercise of certain of the Company's outstanding share options as the exercise prices of those options are higher than the average market price for shares.

14. EARNINGS PER SHARE continued

(b) Adjusted basic and diluted earnings per share

For the purpose of assessing the performance of the Group's principal activities, the management is of the view that the profit for the year attributable to the owners of the Company should be adjusted in the calculation of basic and diluted earnings per share as follows:

For the year ended 31 December 2018

	Profit HK$ million	Basic earnings per share HK cents	Diluted earnings per share HK cents
Profit for the year attributable to owners of the Company	**6,033**	**576.66**	**576.39**
Change in fair value of investment properties	**(3,532)**	**(337.60)**	**(337.44)**
Effect of non-controlling interests' shares	**144**	**13.76**	**13.76**
Share of change in fair value of investment properties (net of deferred taxation) of associates	**(96)**	**(9.18)**	**(9.18)**
Imputed interest income on interest-free loan to a joint venture	**(29)**	**(2.77)**	**(2.77)**
Other gains and losses	**16**	**1.53**	**1.53**
Underlying Profit	**2,536**	**242.40**	**242.29**
Recurring Underlying Profit	**2,536**	**242.40**	**242.29**

For the year ended 31 December 2017

	Profit HK$ million	Basic earnings per share HK cents	Diluted earnings per share HK cents
Profit for the year attributable to owners of the Company	3,636	347.78	347.68
Change in fair value of investment properties	(853)	(81.59)	(81.56)
Effect of non-controlling interests' shares	(253)	(24.20)	(24.19)
Share of change in fair value of investment properties (net of deferred taxation) of associates	(11)	(1.05)	(1.05)
Imputed interest income on interest-free loan to a joint venture	(28)	(2.68)	(2.68)
Underlying Profit	2,491	238.26	238.20
One-off early surrender Compensation income (net of effect of taxation and non-controlling interests' shares)	(142)	(13.58)	(13.58)
Recurring Underlying Profit	2,349	224.68	224.62

Notes:

(a) Recurring Underlying Profit is arrived at by excluding from Underlying Profit items that are non-recurring in nature. As there were no such adjustments in 2018, the Recurring Underlying Profit was the same as the Underlying Profit.

(b) The denominators used in calculating the adjusted earnings per share are the same as those detailed above for basic and diluted earnings per share.

15. INVESTMENT PROPERTIES

	2018 HK$ million	2017 HK$ million
Fair Value		
As at 1 January	**72,470**	69,633
Additions	**1,363**	1,984
Transfer from property, plant and equipment	**77**	–
Change in fair value recognised in profit or loss – unrealised	**3,532**	853
As at 31 December	**77,442**	72,470

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

Fair value measurements and valuation processes

The fair value of the Group's investment properties as at 31 December 2018 and 2017 and the date of transfer from property, plant and equipment to investment properties has been arrived at on the basis of a valuation carried out on those dates by Knight Frank Petty Limited, an independent qualified professional valuer not connected with the Group. The Group's investment properties have been valued individually, on market value basis, which conforms to The Hong Kong Institute of Surveyors Valuation Standards. In estimating the fair value of the investment properties, the management of the Group has considered the highest and best use of the investment properties.

The value of the completed investment properties is derived from the basis of capitalisation of net income with due allowance for the reversionary income potential but without allowances for any expenses or taxation which may be incurred in effecting a sale, and where appropriate, cross reference by sale comparables.

There has been no change to the valuation technique during the year for completed properties.

All of the fair value measurements of the Group's investment properties were categorised into Level 3 of the fair value hierarchy. Details of fair value hierarchy are set out as below.

There were no transfers into or out of Level 3 during the year.

At the end of the reporting period, the management of the Group works with Knight Frank Petty Limited to establish and determine the appropriate valuation techniques and inputs for Level 3 fair value measurements. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the Directors of the Company.

Fair value measurements using significant unobservable inputs (Level 3)

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements of the Group's investment properties by operating and reportable segment.

	Retail HK$ million	Office HK$ million	Residential HK$ million	Investment properties under redevelopment HK$ million	Total HK$ million
As at 1 January 2017	33,082	23,832	7,859	4,860	69,633
Additions	826	22	7	1,129	1,984
Change in fair value recognised in profit or loss – unrealised	(1,994)	1,773	91	983	853
Transfer upon completion	1,274	5,698	–	(6,972)	–
As at 31 December 2017	33,188	31,325	7,957	–	72,470
Additions	**1,133**	**202**	**28**	**–**	**1,363**
Transfer from property, plant and equipment	**77**	**–**	**–**	**–**	**77**
Change in fair value recognised in profit or loss – unrealised	**704**	**2,632**	**196**	**–**	**3,532**
As at 31 December 2018	**35,102**	**34,159**	**8,181**	**–**	**77,442**

15. INVESTMENT PROPERTIES continued

Information about fair value measurements using significant unobservable inputs (Level 3)

The following table shows the valuation techniques used in the determination of fair values for investment properties by operating and reportable segment and unobservable inputs used in the valuation models.

Description	Fair value as at 31 December 2018 HK$ million	Fair value as at 31 December 2017 HK$ million	Valuation techniques	Unobservable inputs	Range/ weighted average of unobservable inputs	Relationship of unobservable inputs to fair value
Retail	**35,102**	33,188	Income capitalisation approach	(i) Capitalisation rate	5.00 % – 5.25 % (2017: 5.00 % – 5.25 %)	The higher the capitalisation rate, the lower the fair value.
				(ii) Market rent per month	HK$134 per square foot (2017: HK$132 per square foot)	The higher the market rent, the higher the fair value.
Office	**34,159**	31,325	Income capitalisation approach	(i) Capitalisation rate	4.25 % – 5.00 % (2017: 4.25 % – 5.00 %)	The higher the capitalisation rate, the lower the fair value.
				(ii) Market rent per month	HK$58 per square foot (2017: HK$54 per square foot)	The higher the market rent, the higher the fair value.
Residential	**8,181**	7,957	Income capitalisation approach	(i) Capitalisation rate	3.75 % (2017: 3.75 %)	The higher the capitalisation rate, the lower the fair value.
				(ii) Market rent per month	HK$37 per square foot (2017: HK$36 per square foot)	The higher the market rent, the higher the fair value.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings in Hong Kong HK$ million *(Note)*	Furniture, fixtures and equipment HK$ million	Computers HK$ million	Motor vehicles HK$ million	Total HK$ million
COST OR VALUATION					
As at 1 January 2017	682	116	60	2	860
Additions	–	3	11	–	14
Disposals	–	(20)	(1)	–	(21)
Surplus on revaluation	40	–	–	–	40
As at 31 December 2017	722	99	70	2	893
Additions	**–**	**17**	**16**	**1**	**34**
Disposals	**–**	**–**	**–**	**(1)**	**(1)**
Transfer to investment properties	**(77)**	**–**	**–**	**–**	**(77)**
Surplus on revaluation	**51**	**–**	**–**	**–**	**51**
As at 31 December 2018	**696**	**116**	**86**	**2**	**900**
Comprising:					
At cost	–	116	86	2	204
At valuation 2018	696	–	–	–	696
	696	116	86	2	900
ACCUMULATED DEPRECIATION					
As at 1 January 2017	–	95	44	1	140
Provided for the year	6	10	6	–	22
Eliminated on disposals	–	(13)	(1)	–	(14)
Eliminated on revaluation	(6)	–	–	–	(6)
As at 31 December 2017	–	92	49	1	142
Provided for the year	**5**	**5**	**7**	**–**	**17**
Eliminated on disposals	**–**	**–**	**–**	**(1)**	**(1)**
Eliminated on revaluation	**(5)**	**–**	**–**	**–**	**(5)**
As at 31 December 2018	**–**	**97**	**56**	**–**	**153**
CARRYING AMOUNTS					
As at 31 December 2018	**696**	**19**	**30**	**2**	**747**
As at 31 December 2017	722	7	21	1	751

16. PROPERTY, PLANT AND EQUIPMENT continued

The above items of property, plant and equipment are depreciated on a straight-line basis over the following terms or at the following rates per annum:

Leasehold land and buildings	Over the shorter of the term of the lease or 40 years
Furniture, fixtures and equipment	20 %
Computers	20 %
Motor vehicles	25 %

Note:

Fair value measurements and valuation processes

The fair value of the Group's leasehold land and buildings in Hong Kong as at 31 December 2018 and 2017 has been arrived at on the basis of a valuation carried out on those dates by Knight Frank Petty Limited, an independent qualified professional valuer not connected with the Group. The Group's leasehold land and buildings in Hong Kong have been valued individually, on market value basis, which conforms to The Hong Kong Institute of Surveyors Valuation Standards. In estimating the fair value of the properties, the management of the Group has considered the highest and best use of the properties. The value was derived from the basis of capitalisation of net income with due allowance for the reversionary income potential but without allowance of any expenses or taxation which may be incurred in effecting a sale, and where appropriate, cross reference by sale comparables. There has been no change to the valuation technique during the year.

All of the fair value measurements of the Group's leasehold land and buildings in Hong Kong were categorised into Level 3 of the fair value hierarchy. Details of fair value hierarchy are set out as below.

There were no transfers into or out of Level 3 during the year.

At the end of the reporting period, the management of the Group works with Knight Frank Petty Limited to establish and determine the appropriate valuation techniques and inputs for Level 3 fair value measurements. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the Directors of the Company.

Information about fair value measurements using significant unobservable inputs (Level 3)

The following table shows the valuation techniques used in the determination of fair values for the Group's leasehold land and buildings in Hong Kong and unobservable inputs used in the valuation models.

Description	Fair value as at 31 December		Valuation techniques	Unobservable inputs	Range/ weighted average of unobservable inputs	Relationship of unobservable inputs to fair value
	2018 HK$ million	2017 HK$ million				
Leasehold land and buildings in Hong Kong	**696**	722	Income capitalisation approach	(i) Capitalisation rate	4.25 % – 5.25 % (2017: 4.25 % – 5.25 %)	The higher the capitalisation rate, the lower the fair value.
				(ii) Market rent per month	HK$68 per square foot (2017: HK$62 per square foot)	The higher the market rent, the higher the fair value.

The gains of HK$56 million (2017: HK$46 million) arising on revaluation have been recognised in other comprehensive income and accumulated in properties revaluation reserve.

Had the Group's land and buildings been measured on at historical cost less subsequent accumulated depreciation, their carrying amounts would have been HK$161 million (2017: HK$243 million) at the end of the reporting period.

Furniture, fixtures and equipment of the Group include assets carried at cost of HK$47 million (2017: HK$34 million) and accumulated depreciation of HK$32 million (2017: HK$29 million) in respect of assets held for leasing out under operating leases. Depreciation charges in respect of those assets for the year amounted to HK$3 million (2017: HK$2 million).

17. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

The table below lists the principal subsidiaries of the Company as at 31 December 2018 and 2017:

Name of subsidiary	Place of incorporation/ operation	Issued share capital	Proportion of ownership interests/ voting rights held by the Company		Principal activities
			directly	indirectly	
Admore Investments Limited	Hong Kong	HK$2	100 %	–	Investment holding
Alpha Ace Limited	Hong Kong	HK$1	–	100 %	Property development
Bamboo Grove Recreational Services Limited	Hong Kong	HK$2	–	100 %	Resident club management
Barrowgate Limited	Hong Kong	HK$10,000	–	65.36 %	Property investment
Earn Extra Investments Limited	Hong Kong	HK$1	–	100 %	Property investment
HD Investment Limited	British Virgin Islands	HK$1	–	100 %	Investment holding
HD Treasury Limited	Hong Kong	HK$2	100 %	–	Treasury operation
Hysan China Holdings Limited	British Virgin Islands	HK$1	100 %	–	Investment holding
Hysan Corporate Services Limited	Hong Kong	HK$2	100 %	–	Provision of corporate services
Hysan Leasing Company Limited	Hong Kong	HK$2	100 %	–	Leasing administration
Hysan (MTN) Limited	British Virgin Islands/ Hong Kong	US$1	100 %	–	Treasury operation
Hysan Property Management Limited	Hong Kong	HK$2	100 %	–	Property management
Hysan Treasury Limited	Hong Kong	HK$2	100 %	–	Treasury operation
Kwong Hup Holding Limited	British Virgin Islands	HK$1	100 %	–	Investment holding
Kwong Wan Realty Limited	Hong Kong	HK$1,000	100 %	–	Property investment
Lee Theatre Realty Limited	Hong Kong	HK$10	–	100 %	Property investment
Leighton Property Company Limited	Hong Kong	HK$2	–	100 %	Property investment
Minsal Limited	Hong Kong	HK$2	100 %	–	Property investment
Main Rise Development Limited	Hong Kong	HK$2	–	100 %	Investment holding
Mariner Bay Limited	British Virgin Islands/ Hong Kong	US$1	–	100 %	Investment holding
Mondsee Limited	Hong Kong	HK$2	100 %	–	Property investment
OHA Property Company Limited	Hong Kong	HK$2	–	100 %	Property investment
Perfect Win Properties Limited	Hong Kong	HK$2	–	100 %	Property investment
Silver Nicety Company Limited	Hong Kong	HK$20	–	100 %	Property investment

The Directors of the Company are of the opinion that a complete list of all subsidiaries and their particulars will be of excessive length and therefore the above table contains only those subsidiaries which materially contribute to the net income of the Group or hold a material portion of the assets or liabilities or otherwise are operating subsidiaries of the Company. Other than unsecured fixed rate notes issued by Hysan (MTN) Limited ("Hysan MTN") as disclosed in note 27 of the Notes to the Consolidated Financial Statements section, none of the subsidiaries had issued any debt securities at the end of the reporting period.

17. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY continued

The summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Barrowgate Limited

	2018 HK$ million	2017 HK$ million
Current assets	**347**	699
Non-current assets	**9,886**	9,427
Current liabilities	**(785)**	(1,160)
Non-current liabilities	**(193)**	(166)
Equity attributable to owners of the Company	**6,049**	5,752
Non-controlling interests	**3,206**	3,048
Turnover	**584**	628
Profit (loss) and total comprehensive income (expenses) for the year	**825**	(62)
Profit (loss) and total comprehensive income (expenses) attributable to owner of the Company	**539**	(40)
Profit (loss) and total comprehensive income (expenses) attributable to the non-controlling interests	**286**	(22)
Dividends paid to non-controlling interests	**128**	128
Net cash inflows from operating activities	**347**	400
Net cash inflows (outflows) from investing activities	**380**	(571)
Cash outflows from financing activities	**(670)**	(370)
Net cash inflows (outflows)	**57**	(541)

18. INVESTMENTS IN ASSOCIATES AND LOANS TO ASSOCIATES

	2018 HK$ million	2017 HK$ million
Cost of unlisted investments	**2**	2
Share of post-acquisition profits and other comprehensive income, net of dividends received	**3,706**	3,777
	3,708	3,779
Loans to associates classified as:		
Non-current assets	**11**	10

The balances of loans to associates are unsecured, interest-free and have no fixed repayment terms. The Directors of the Company are of the opinion that the Group will not demand repayment from the associates within the next twelve months from the end of the reporting period and the loans are therefore classified as non-current assets.

18. INVESTMENTS IN ASSOCIATES AND LOANS TO ASSOCIATES continued

The Directors of the Company are of the opinion that a complete list of all associates will be of excessive length and the Group summarises details of the Group's material associate as at 31 December 2018 and 2017 as follows:

Name of associate	Form of business structure	Place of incorporation/ establishment and operation	Class of share held/ registered capital	Effective interest held by the Group	Principal activities
Country Link Enterprises Limited *(Note)*	Private limited company	Hong Kong	Ordinary share of HK$5,000,000	26.3 %	Investment holding
Shanghai Kong Hui Property Development Co., Ltd. *(Note)*	Sino-Foreign equity joint venture	The PRC	US$165,000,000#	24.7 %	Property development and leasing
Shanghai Grand Gateway Plaza Property Management Co., Ltd. *(Note)*	Sino-Foreign equity joint venture	The PRC	US$140,000#	23.7 %	Property management

Fully paid-up registered capital

Note:

Shanghai Kong Hui Property Development Co., Ltd. and Shanghai Grand Gateway Plaza Property Management Co., Ltd. are non-wholly owned subsidiaries of Country Link Enterprises Limited, together known as "Country Link".

The summarised consolidated financial information in respect of the Group's material associate is set out below. The summarised consolidated financial information below represents amounts shown in the associate's consolidated financial statements prepared in accordance with HKFRSs. All of the Group's associates are accounted for using the equity method in the Group's consolidated financial statements.

Country Link

	2018 HK$ million	2017 HK$ million
Current assets	**1,953**	2,179
Non-current assets	**18,292**	18,328
Current liabilities	**(1,001)**	(991)
Non-current liabilities	**(4,214)**	(4,234)
Turnover	**1,397**	1,432
Profit for the year	**1,195**	897
Other comprehensive (expenses) income for the year	**(699)**	974
Total comprehensive income for the year	**496**	1,871
Group's share of results of an associate for the year	**294**	220
Group's share of other comprehensive (expense) income of an associate for the year	**(172)**	240
Dividends received from the associate during the year	**184**	178

18. INVESTMENTS IN ASSOCIATES AND LOANS TO ASSOCIATES continued

Country Link continued

Reconciliation of the above summarised consolidated financial information to the carrying amount of the interest in the associate that is material to the Group recognised in the consolidated financial statements:

	2018 HK$ million	2017 HK$ million
Net assets of the associate	**15,030**	15,282
Non-controlling interests of the associate	**(887)**	(901)
Net assets of the associate after deducting non-controlling interests of the associate	**14,143**	14,381
Proportion of the Group's ownership interest in the associate	**26.3%**	26.3%
Group's share of net assets of the associate	**3,720**	3,784
Others	**(5)**	(5)
Carrying amount of the Group's interest in the associate	**3,715**	3,779

19. INVESTMENT IN A JOINT VENTURE AND LOANS TO A JOINT VENTURE

Details of the Group's investment in and loans to a joint venture are as follow:

	2018 HK$ million	2017 HK$ million
Investment in a joint venture		
Unlisted shares, at cost	**–**	–
Deemed capital contribution in a joint venture *(Note a)*	**145**	147
	145	147
Loans to a joint venture classified as:		
Non-current assets *(Note b)*	**1,062**	982

Notes:

(a) The deemed capital contribution in a joint venture represents the fair value adjustments in relation to the loan to a joint venture at initial recognition based on the estimated timing on future cash flows.

(b) The loans to a joint venture are unsecured and have no fixed repayment terms. As at 31 December 2018, except for the loans to a joint venture with aggregate carrying amounts of HK$120 million (2017: HK$63 million) which are carrying variable rates ranging from 2.73% to 4.24% (2017: 2.36% to 3.00%) per annum, the remaining loan to a joint venture of the Group is interest-free. The Directors of the Company are of the opinion that the Group will not demand repayment of the loans from the joint venture within the next twelve months from the end of the reporting period and the loans are therefore classified as non-current assets. The effective interest rate for imputed interest income on the interest-free portion is determined based on the cost of fund of the borrower per annum.

19. INVESTMENT IN A JOINT VENTURE AND LOANS TO A JOINT VENTURE continued

Details of the Group's joint venture as at 31 December 2018 and 2017 are as follows:

Name of joint venture	Place of incorporation and operation	Class of share held	Effective ownership interest and voting rights held by the Group	Principal activities
Strongbod Limited *(Note a)*	British Virgin Islands	Ordinary shares of US$10	60% *(Note b)*	Investment holding
Gainwick Limited *(Note a)*	Hong Kong	Ordinary share of HK$1	60% *(Note b)*	Property development and investment

Notes:

(a) Gainwick Limited is a wholly owned subsidiary of Strongbod Limited, together known as "Strongbod".

(b) Pursuant to the shareholder's agreement dated 5 December 2016, entered into by the Group, the joint venture partner and Strongbod, decisions on all relevant business and operation activities of Strongbod require unanimous board approval from directors of Strongbod appointed by the Group and those appointed by the joint venture partner. Therefore, the Group recognised the investment in Strongbod as a joint venture.

The summarised consolidated financial information in respect of the Group's material joint venture is set out below. The summarised consolidated financial information below represents amounts shown in the joint venture's consolidated financial statements prepared in accordance with HKFRSs. The joint venture is accounted for using the equity method in the Group's consolidated financial statements. There was no material share of post-acquisition profits and other comprehensive income in both years.

Strongbod

	2018 HK$ million	2017 HK$ million
Current assets	**3,618**	3,513
Current liabilities	**17**	11
Non-current liabilities	**3,601**	3,502

Reconciliation of the above summarised consolidated financial information to the carrying amount of the interest in the joint venture that is material to the Group recognised in the consolidated financial statements:

	2018 HK$ million	2017 HK$ million
Net assets of the joint venture	**–**	–
Proportion of the Group's ownership interest in the joint venture	**60%**	60%
Group's share of net assets of the joint venture	**–**	–
Add: Deemed capital contribution in the joint venture	**145**	147
Carrying amount of the Group's interest in the joint venture	**145**	147

20. FUND INVESTMENT

The balance represents the Group's interest in a fund investment as limited partner. The fund investment engages in property investment in Hong Kong and overseas projects. The fund investment is classified as fair value through profit or loss ("FVTPL").

21. TERM NOTES

	2018 HK$ million	2017 HK$ million
Term notes, at amortised cost, comprise:		
– Debt securities listed in Hong Kong	**196**	604
– Debt securities listed in overseas	**31**	102
– Unlisted debt securities	**–**	31
Total	**227**	737
Analysed for reporting purposes as:		
Current assets	**227**	509
Non-current assets	**–**	228
	227	737

As at 31 December 2018, the effective yield of the debt securities ranged from 1.81 % to 2.09 % (2017: 1.81 % to 2.60 %) per annum, payable quarterly, semi-annually or annually, and the securities will mature from January 2019 to July 2019 (2017: from January 2018 to July 2019). At the end of the reporting period, none of these assets were past due but not impaired.

Details of the impairment assessment of term notes for the year ended 31 December 2018 are set out in the Financial Risk Management section.

22. OTHER FINANCIAL ASSETS/LIABILITIES

	Current		Non-current	
	2018 HK$ million	2017 HK$ million	2018 HK$ million	2017 HK$ million
Other financial assets				
Derivatives under hedge accounting:				
Cash flow hedges				
– Forward foreign exchange contracts	**–**	1	**–**	1
Financial assets measured at FVTPL:				
Club debenture	**–**	–	**1**	1
Total	**–**	1	**1**	2
Other financial liabilities				
Derivatives under hedge accounting:				
Cash flow hedges				
– Forward foreign exchange contracts	**–**	1	**–**	–
– Cross currency swap	**–**	–	**26**	30
Total	**–**	1	**26**	30

22. OTHER FINANCIAL ASSETS/LIABILITIES continued

(a) Cash flow hedges

Foreign currency risk

During the year, the Group used forward foreign exchange contracts and cross currency swap to manage its foreign currency exposure. The principal terms of the forward foreign exchange contracts and cross currency swap have been negotiated to match the major terms of the respective designated hedged items and the management considers that the hedges are highly effective.

The table below is prepared based on the maturity dates of respective contracts. The major terms of these outstanding forward foreign exchange contracts and cross currency swap at the end of the reporting period are as follows:

Hedging instruments

	2018					2017				
	Average exchange rate*	Foreign currency	Notional amount million	Notional amount HK$ million	Fair value HK$ million	Average exchange rate*	Foreign currency	Notional amount million	Notional amount HK$ million	Fair value HK$ million
Forward foreign exchange contracts										
Sell US dollars ("USD") *(Note a)*										
Within 1 year	**7.7996**	**USD**	**28**	**218**	**–**	7.8021	USD	42	329	–
More than 1 year but not exceeding 5 years	**–**	**–**	**–**	**–**	**–**	7.7996	USD	28	218	1
	7.7996	**USD**	**28**	**218**	**–**	7.8011	USD	70	547	1
Cross currency swap										
Hedging interest and principal of USD fixed rate notes *(Note b)*										
More than 1 year but not exceeding 5 years	**7.7519**	**USD**	**300**	**2,326**	**(26)**	7.7519	USD	300	2,326	(30)
Total				**2,544**	**(26)**				2,873	(29)

* Average exchange rate represented the average exchange rate of HKD versus respective currencies weighted by the notional amounts of the contracts or the swap.

Notes:

(a) The Group used HK$218 million (2017: HK$547 million) forward foreign exchange contracts to hedge the foreign exchange rate risk of part of the principal amount of term notes denominated in USD at their respective maturity dates.

(b) The Group used HK$2,326 million (2017: HK$2,326 million) cross currency swap to convert USD interest and principal of US$300 million (2017: US$300 million) fixed rate notes into HKD.

22. OTHER FINANCIAL ASSETS/LIABILITIES continued

(a) Cash flow hedges continued

Foreign currency risk continued

Hedged items

	Carrying amount of the hedged item				Cash flow hedge reserves	
	Assets		Liabilities			
	2018 HK$ million	2017 HK$ million	**2018 HK$ million**	2017 HK$ million	**2018 HK$ million**	2017 HK$ million
USD term notes	**218**	548	**–**	–	**2**	1
USD fixed rate notes	**–**	–	**2,344**	2,338	**(50)**	(44)

The hedging ineffectiveness for the years ended 31 December 2018 and 2017 was insignificant.

	Change in the value of the hedging instrument recognised in other comprehensive income		Amount reclassified from the cash flow hedge reserve to profit or loss		Line item affected in profit or loss because of the reclassification
	2018 HK$ million	2017 HK$ million	**2018 HK$ million**	2017 HK$ million	
Forward foreign exchange contracts	**1**	(6)	**(5)**	10	Investment income
Cross currency swap	**1**	(43)	**(2)**	(16)	Finance costs

The fair values of forward foreign exchange contracts and cross currency swap are measured using quoted forward exchange rates and yield curves from quoted interest rates matching maturities of the contracts and swap.

(b) Financial assets measured at FVTPL

Club debenture

Amount represented investment in unlisted club debenture. The Group's investment in unlisted club debenture has been classified as financial assets measured at FVTPL.

23. ACCOUNTS AND OTHER RECEIVABLES

	2018 HK$ million	2017 HK$ million
Accounts receivable	**15**	11
Interest receivable	**46**	44
Prepayments in respect of investment properties	**228**	283
Other receivables and prepayments	**300**	220
Total	**589**	558
Analysed for reporting purposes as:		
Current assets	**203**	226
Non-current assets	**386**	332
	589	558

Rents from leasing of investment properties are normally received in advance. At the end of the reporting period, accounts receivable of the Group with carrying amount of HK$15 million (2017: HK$11 million) mainly represented rents receipts in arrears, which were aged less than 90 days.

At the end of the reporting period, HK$5 million (2017: HK$3 million) of the accounts receivable were past due but not impaired as the accounts receivables are generally fully covered by the deposits from corresponding tenants.

24. TIME DEPOSITS/CASH AND CASH EQUIVALENTS

Time deposits, cash and cash equivalents include bank deposits carrying effective interest rates ranging from 0.20% to 3.40% (2017: 0.15% to 2.56%) per annum.

For the year ended 31 December 2018, the Group performed impairment assessment on time deposits and bank balances and concluded that the probability of default of the counterparty banks are insignificant and accordingly, no allowance for credit losses is provided.

25. ACCOUNTS PAYABLE AND ACCRUALS

	2018 HK$ million	2017 HK$ million
Accounts payable	**257**	215
Interest payable	**74**	74
Other payables	**542**	447
	873	736

At the end of the reporting period, accounts payable of the Group with carrying amount of HK$175 million (2017: HK$157 million) were aged less than 90 days.

26. AMOUNTS DUE TO NON-CONTROLLING INTERESTS

The amounts due to non-controlling interests are unsecured, interest-free and repayable on demand.

27. BORROWINGS

The analysis of the carrying amounts of borrowings is as follows:

	Current		Non-current	
	2018 HK$ million	2017 HK$ million	**2018 HK$ million**	2017 HK$ million
Unsecured bank loans	**–**	–	**1,532**	1,550
Unsecured fixed rate notes	**300**	150	**4,490**	4,485
	300	150	**6,022**	6,035

In the current year, the average cost of finance of the Group's total borrowings calculated based on their contracted interest rates was 3.6% (2017: 3.3%) per annum. To manage the foreign exchange risks, the Group used certain derivative to hedge part of the borrowings, which resulted in the Group's average cost of finance to be 3.6% (2017: 3.4%) per annum. As at 31 December 2018, the floating rate debt ratio relative to gross total debt after considering the hedges was 24.5% (2017: 25.1%).

(a) Unsecured bank loans

The unsecured bank loans of HK$1,532 million (2017: HK$1,550 million) are guaranteed as to principal and interest by the Company and are repayable, based on the scheduled repayment dates set out in the respective loan agreement, as follows:

	2018 HK$ million	2017 HK$ million
More than 1 year, but not exceeding 2 years	**–**	500
More than 2 years, but not exceeding 5 years	**1,532**	1,050
	1,532	1,550

All the Group's unsecured bank loans are variable-rate borrowings with effective interest rates (which were also equal to contracted interest rates) at 3.09% (2017: 1.97%) per annum at the end of the reporting period. Interest rates of the loans are normally re-fixed at every one to three months.

27. BORROWINGS continued

(b) Unsecured fixed rate notes

	2018 HK$ million	2017 HK$ million
Within 1 year	**300**	150
More than 1 year, but not exceeding 2 years	**565**	300
More than 2 years, but not exceeding 5 years	**3,277**	1,094
More than 5 years	**648**	3,091
	4,790	4,635

Details of the Group's unsecured fixed rate notes as at 31 December 2018 and 2017 are as follows:

Principal amount	Contracted interest rate per annum	Coupon payment term	Issue date	Maturity date
HK$165 million	5.38 %	annual basis	September 2008	September 2020
HK$400 million	3.78 %	quarterly basis	August 2010	August 2020
HK$200 million	4.00 %	annual basis	September 2010	September 2025
HK$200 million	3.70 %	quarterly basis	October 2010	October 2022
HK$150 million*	3.86 %	quarterly basis	May 2011	May 2018
HK$404 million	4.10 %	annual basis	December 2011	December 2023
HK$331 million	4.00 %	quarterly basis	January 2012	January 2022
HK$300 million	3.90 %	quarterly basis	March 2012	March 2019
HK$150 million	4.50 %	annual basis	March 2012	March 2027
US$300 million	3.50 %	semi-annual basis	January 2013	January 2023
HK$300 million**	3.66 %	quarterly basis	November 2018	November 2025

* Only applicable to the year ended 31 December 2017.

** Only applicable to the year ended 31 December 2018.

All the unsecured fixed rate notes were issued by Hysan MTN, a wholly-owned subsidiary of the Company. The notes are guaranteed as to principal and interest by the Company and bear an effective interest rate equal to their respective contracted interest rate.

As detailed in note 22 of the Notes to the Consolidated Financial Statements section, during the years ended 31 December 2018 and 2017, cross currency swap was used to hedge or manage the foreign exchange rate risks of the Group's USD fixed rate notes.

28. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the current and prior years:

	Accelerated tax depreciation HK$ million	Revaluation of properties HK$ million	Tax losses HK$ million	Total HK$ million
As at 1 January 2017	679	72	–	751
Charge (credit) to profit or loss *(note 8)*	125	(1)	(96)	28
Charge to other comprehensive income	–	8	–	8
As at 31 December 2017	804	79	(96)	787
Charge (credit) to profit or loss *(note 8)*	**97**	**(1)**	**(38)**	**58**
Charge to other comprehensive income	**–**	**9**	**–**	**9**
As at 31 December 2018	**901**	**87**	**(134)**	**854**

At the end of the reporting period, the Group has unused estimated tax losses of HK$1,437 million (2017: HK$1,243 million) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$815 million (2017: HK$580 million) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$622 million (2017: HK$663 million) due to the unpredictability of future profit streams and the tax losses may be carried forward indefinitely.

29. SHARE CAPITAL

	Number of shares	Share capital HK$ million
Ordinary shares, issued and fully paid:		
As at 1 January 2017	1,045,328,359	7,673
Issue of shares under share option schemes	496,532	19
As at 31 December 2017	1,045,824,891	7,692
Issue of shares under share option schemes	**677,000**	**26**
As at 31 December 2018	**1,046,501,891**	**7,718**

30. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2018 HK$ million	2017 HK$ million
Non-current assets		
Property, plant and equipment	**–**	–
Investments in subsidiaries	**1,696**	1,318
Other financial assets	**1**	1
Amounts due from subsidiaries	**4,152**	3,735
	5,849	5,054
Current assets		
Other receivables	**4**	3
Amounts due from subsidiaries	**10,131**	10,309
Cash and cash equivalents	**1**	11
	10,136	10,323
Current liabilities		
Other payables and accruals	**64**	60
Amounts due to subsidiaries	**2,753**	2,288
	2,817	2,348
Net current assets	**7,319**	7,975
Net assets	**13,168**	13,029
Capital and reserves		
Share capital *(note 29)*	**7,718**	7,692
Reserves	**5,450**	5,337
Total equity	**13,168**	13,029

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 21 February 2019 and are signed on its behalf by:

Lee Irene Y.L.
Director

Lee T.H. Michael
Director

30. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY continued

Movement in the Company's reserve

	Share options reserve HK$ million	General reserve HK$ million *(Note a)*	Retained profits HK$ million	Total HK$ million
As at 1 January 2017	24	100	5,094	5,218
Issue of shares under share option schemes	(4)	–	–	(4)
Recognition of equity-settled share-based payments	4	–	–	4
Forfeiture of share option	(3)	–	3	–
Profit and total comprehensive income for the year	–	–	1,530	1,530
Dividends paid during the year *(note 13)*	–	–	(1,411)	(1,411)
As at 31 December 2017	21	100	5,216	5,337
Issue of shares under share option schemes	**(5)**	**–**	**–**	**(5)**
Recognition of equity-settled share-based payments	**4**	**–**	**–**	**4**
Forfeiture of share option	**(1)**	**–**	**1**	**–**
Profit and total comprehensive income for the year	**–**	**–**	**1,558**	**1,558**
Dividends paid during the year *(note 13)*	**–**	**–**	**(1,444)**	**(1,444)**
As at 31 December 2018	**19**	**100**	**5,331**	**5,450**

Notes:

(a) General reserve was set up from the transfer of retained profits.

(b) The Directors of the Company considered that the application of the new and amendments to HKFRSs that are effective for the Company's financial year beginning on 1 January 2018 have no material impact on the Company's results and financial position.

The Company's reserves available for distribution to its owners as at 31 December 2018 amounted to HK$5,431 million (2017: HK$5,316 million), being its general reserve and retained profits at that date.

31. RECONCILIATION OF ASSETS/LIABILITIES RELATING TO FINANCING ACTIVITIES

	2018 HK$ million	2017 HK$ million
Net debt *(Note a)*	**(3,505)**	(3,523)
Other financial liability *(Note b)*	**(26)**	(30)
Interest payable	**(74)**	(74)
Amounts due to non-controlling interests	**(223)**	(327)
	(3,828)	(3,954)

31. RECONCILIATION OF ASSETS/LIABILITIES RELATING TO FINANCING ACTIVITIES continued

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows from financing activities.

	Cash and cash equivalent HK$ million	Time deposits HK$ million	Other financial asset/ liability HK$ million	Bank loans HK$ million	Fixed rate notes HK$ million	Interest payable HK$ million	Amounts due to non-controlling interests HK$ million	Total HK$ million
As at 1 January 2017	1,367	1,263	11	(1,680)	(4,613)	(75)	(327)	(4,054)
Cash flows, net	667	(635)	–	130	–	196	–	358
Other non-cash changes:								
Foreign exchange adjustments	–	–	19	–	(19)	–	–	–
Fair value adjustments	–	–	(57)	–	–	–	–	(57)
Interest expenses	–	–	(3)	–	(3)	(195)	–	(201)
As at 31 December 2017	2,034	628	(30)	(1,550)	(4,635)	(74)	(327)	(3,954)
Cash flows, net	**35**	**120**	**–**	**–**	**(148)**	**212**	**104**	**323**
Other non-cash changes:								
Foreign exchange adjustments	**–**	**–**	**5**	**–**	**(5)**	**–**	**–**	**–**
Fair value adjustments	**–**	**–**	**1**	**–**	**–**	**–**	**–**	**1**
Interest expenses	**–**	**–**	**(2)**	**(6)**	**(2)**	**(212)**	**–**	**(222)**
Others	**–**	**–**	**–**	**24**	**–**	**–**	**–**	**24**
As at 31 December 2018	**2,069**	**748**	**(26)**	**(1,532)**	**(4,790)**	**(74)**	**(223)**	**(3,828)**

Notes:

(a) Net debt represents borrowings less time deposits, cash and cash equivalent as disclosed under note 5 of the Financial Risk Management section.

(b) Other financial asset/liability represents the hedging instrument (cross currency swap) that was used to hedge against the foreign exchange rate risk arising from financing activities.

32. RETIREMENT BENEFITS PLANS

With effect from 1 December 2000, the Group set up an Enhanced Mandatory Provident Fund Scheme (the "Enhanced MPF Scheme"), a defined contribution scheme, for all qualifying employees. The Enhanced MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under Section 124(1) of the Mandatory Provident Fund Schemes (General) Regulation.

Pursuant to the rules of the Enhanced MPF Scheme, the Group's contributions to the plan are based on fixed percentages of members' salaries, ranging from 5% of MPF relevant income to 15% of basic salary. Members' mandatory contributions are fixed at 5% of MPF relevant income, in compliance with MPF legislation.

Total contributions made by the Group during the year amounted to HK$9 million (2017: HK$7 million).

33. COMMITMENTS

At the end of the reporting period, the Group had the following capital commitments in respect of its investment properties, property, plant and equipment and subscription to a fund investment as limited partner:

	2018 HK$ million	2017 HK$ million
(a) Capital commitment:		
Contracted but not provided for investment properties and property, plant and equipment	**655**	1,233
(b) Other commitment:		
Subscription to a fund investment as limited partner	**74**	369

34. LEASE COMMITMENTS

At the end of the reporting period, the Group as lessor had contracted with tenants for the following future minimum lease payments:

	2018 HK$ million	2017 HK$ million
Within one year	**3,180**	3,065
In the second to fifth year inclusive	**4,960**	4,754
Over five years	**857**	53
	8,997	7,872

Operating lease payments represent rentals receivable by the Group from leasing of its investment properties. Typically, leases are negotiated and rentals are fixed for lease term of one to three years. Certain leases include contingent rentals calculated with reference to turnover of the tenants.

At the end of the reporting period, the Group as lessee had no commitment under non-cancellable operating lease.

35. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Transactions and balances with related parties

During the year, the Group has transaction with related party including imputed interest income on interest-free loan to a joint venture as disclosed under note 6 of the Notes to the Consolidated Financial Statements sections. At the end of the reporting period, the Group has several balances with related parties including loans to associates and loans to a joint venture as disclosed under note 18 and note 19 of the Notes to the Consolidated Financial Statements section. The Group has also granted guarantees to banks for facilities granted to a joint venture as disclosed under note 36 of the Notes to the Consolidated Financial Statements section. During the year ended 31 December 2017, the Group acquired 100 % equity interests in a company from a related party, a wholly-owned subsidiary of Lee Hysan Company Limited ("LHC") for aggregate cash consideration of HK$75 million.

In addition, the Group has the following transactions with other related parties during the year and has the following balances with them at the end of the reporting period:

	Gross rental income received from Year ended 31 December		Amount due to non-controlling interests As at 31 December	
	2018 HK$ million	2017 HK$ million	**2018 HK$ million**	2017 HK$ million
Related company controlled by a shareholder *(Note a)*	**–**	3	**–**	–
Related companies controlled by the Directors of the Company *(Note b (i) & (ii))*	**41**	41	**64**	94
Non-controlling shareholder of a subsidiary *(Note c (i) & (ii))*	**30**	29	**159**	233
Director *(Note d)*	**–**	1	**–**	–

Notes:

(a) The sum of transactions represents the aggregate gross rental income received from Atlas Corporate Management Limited, an indirect wholly-owned subsidiary of LHC. As at 31 December 2017, LHC holds 41.42 % beneficial interest and has significant influence over the Company.

(b) (i) The sum of transactions represents the aggregate gross rental income received from related companies where the Directors of the Company have controlling interests over these related companies.

(ii) The balance represents outstanding loan advanced to a non-wholly owned subsidiary of the Company, Barrowgate by Jebsen Capital Limited, a wholly-owned subsidiary of Jebsen and Company, of which Jebsen Hans Michael is a director and a controlling shareholder, as shareholders' loan in proportion to its shareholding in Barrowgate for general funding purpose. The amount is unsecured, interest-free and repayable on demand.

(c) (i) The transaction represents the gross rental income received from Hang Seng Bank Limited ("Hang Seng"), the intermediate holding company of Imenson Limited ("Imenson") and The Hongkong and Shanghai Banking Corporation Limited, the holding company of Hang Seng. Imenson is a non-controlling shareholder with significant influence over Barrowgate.

(ii) The balance represents outstanding loan advanced to Barrowgate by Imenson, as shareholders' loan in proportion to its shareholding in Barrowgate for general funding purpose. The amount is unsecured, interest-free and repayable on demand.

(d) The transactions represents the gross rental income received from a Director of the Company.

35. RELATED PARTY TRANSACTIONS AND BALANCES continued

(b) Compensation of key management personnel

The remuneration of Directors and other members of senior management of the Group are as follows:

	2018 HK$ million	2017 HK$ million
Directors' fees, salaries and other short-term employee benefits	**48**	43
Share-based payments	**3**	3
Retirement benefits scheme contributions	**1**	–
	52	46

The remuneration of the Directors and key executives is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

36. CONTINGENT LIABILITY

At the end of the reporting period, the Group had contingent liabilities as follows:

	2018 HK$ million	2017 HK$ million
Guarantees given to banks in respect of:		
Banking facilities of a joint venture attributable to the Group:		
– Utilised	**999**	999
– Unutilised	**2,001**	2,001
	3,000	3,000

During the year ended 31 December 2017, the Group issued corporate financial guarantees to banks in respect of banking facilities granted to a joint venture. The fair value of the financial guarantee contracts at its initial recognition is insignificant.

Other than the financial guarantees as disclosed above, several funding undertakings have also been provided by the Group to the extent not having been financed by drawdown made under the relevant banking facilities of the joint venture in relation to the completion of the underlying project of the joint venture.

Details of the impairment assessment of financial guarantees for the year ended 31 December 2018 is set out in the Financial Risk Management section.

37. SHARE-BASED PAYMENT TRANSACTIONS

(a) Equity-settled share option scheme

The 2005 Scheme

The Company adopted the 2005 Scheme at its AGM held on 10 May 2005, which has a term of 10 years and expired on 9 May 2015. All outstanding options granted under the 2005 Scheme will continue to be valid and exercisable in accordance with the provisions of the 2005 Scheme.

The purpose of the 2005 Scheme is to provide an incentive for employees of the Company and its wholly-owned subsidiaries to work with commitment towards enhancing the value of the Company and its shares for the benefit of its shareholders.

Under the 2005 Scheme, options to subscribe for ordinary shares of the Company may be granted to employees of the Company or any wholly-owned subsidiaries (including Executive Director) and such other persons as the Board may consider appropriate from time to time, on the basis of their contribution to the development and growth of the Company and its subsidiaries.

37. SHARE-BASED PAYMENT TRANSACTIONS continued

(a) Equity-settled share option scheme continued

The 2005 Scheme continued

The maximum number of shares in respect of which options may be granted under the 2005 Scheme and any other share option scheme of the Company shall not exceed such number of shares as required under the Listing Rules, currently being 10% of the shares in issue as at 10 May 2005, the date of the AGM approving the 2005 Scheme (being 104,996,365 shares).

The maximum entitlement of each participant under the 2005 Scheme must not during any 12-month period exceed such number of shares as required under the Listing Rules (which is 1% of the total shares in issue as at the date of shareholder approval, being 10,499,636 shares). The exercise price shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; and (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant. Consideration on each grant of option is HK$1 and is required to be paid within 30 days from the date of grant of options, with full payment for exercise price to be made on exercise of the relevant options.

The New Scheme

The Company adopted the New Scheme (together with the 2005 Scheme are referred to as the "Schemes") at its AGM held on 15 May 2015, which has a term of 10 years and will expire on 14 May 2025. Terms of the New Scheme are substantially the same as those under the 2005 Scheme.

The purpose of the New Scheme is to provide an incentive for employees of the Company and its subsidiaries to work with commitment towards enhancing the value of the Company and its shares for the benefit of its shareholders.

Under the New Scheme, options to subscribe for ordinary shares of the Company may be granted to employees of the Company or any subsidiaries (including Executive Director) and such other persons as the Board may consider appropriate from time to time, on the basis of their contribution to the development and growth of the Company and its subsidiaries.

The maximum number of shares in respect of which options may be granted under the New Scheme and any other share option schemes of the Company shall not in aggregate exceed such number of shares as required under the Listing Rules, currently being 10% of the shares in issue as at 15 May 2015, the date of the AGM approving the New Scheme (being 106,389,669 shares). Under the Listing Rules, a listed issuer may seek approval by its shareholders in general meeting for "refreshing" the 10% limit under the scheme. The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company must not exceed 30% of the shares in issue from time to time (or such number of shares as required under the Listing Rules). No options may be granted if such grant will result in this 30% limit being exceeded.

The maximum entitlement of each participant under the New Scheme must not during any 12-month period exceed such number of shares as required under the Listing Rules (which is 1% of the total shares in issue as at the date of shareholder approval, being 10,638,966 shares). The exercise price shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; and (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant. Consideration on each grant of option is HK$1 and is required to be paid within 30 days from the date of grant of options, with full payment for exercise price to be made on exercise of the relevant options.

During the year, a total of 956,200 (2017: 727,000) share options were granted under the New Scheme. The 2005 Scheme expired on 9 May 2015 and no further option will be granted under the 2005 Scheme.

(b) Grant and vesting structures

Under the Company's current policy, grants will be made on a periodic basis. For the Schemes, the exercise period is 10 years and vesting period is 3 years in equal proportions starting from the 1st anniversary and become fully vested on the 3rd anniversary of the grant. Size of grant will be determined by reference to base salary multiple and job grades. A clear performance criterion will be a key driver. The Board will review the grant and vesting structures from time to time.

37. SHARE-BASED PAYMENT TRANSACTIONS continued

(c) Movement of share options

The following table discloses movements of the Company's share options held by the Director and eligible employees during the current year:

Name	Date of grant	Exercise price HK$	Exercise period *(Note a)*	Balance as at 1.1.2018	Changes during the year: Granted	Exercised	Cancelled/ lapsed *(Note b)*	Balance as at 31.12.2018
2005 Scheme								
Executive Director								
Lee Irene Yun-Lien	14.5.2012	33.50	14.5.2013 – 13.5.2022	**87,000**	**–**	**–**	**–**	**87,000**
	7.3.2013	39.92	7.3.2014 – 6.3.2023	**265,000**	**–**	**–**	**–**	**265,000**
	10.3.2014	32.84	10.3.2015 – 9.3.2024	**325,000**	**–**	**–**	**–**	**325,000**
	12.3.2015	36.27	12.3.2016 – 11.3.2025	**300,000**	**–**	**–**	**–**	**300,000**
Eligible employees *(Note c)*	31.3.2009	13.30	31.3.2010 – 30.3.2019	**59,000**	**–**	**(59,000)** *(Note d)*	**–**	**–**
	31.3.2010	22.45	31.3.2011 – 30.3.2020	**70,334**	**–**	**(20,334)** *(Note e)*	**–**	**50,000**
	31.3.2011	32.00	31.3.2012 – 30.3.2021	**54,000**	**–**	**(22,000)** *(Note f)*	**–**	**32,000**
	30.3.2012	31.61	30.3.2013 – 29.3.2022	**105,334**	**–**	**(35,334)** *(Note g)*	**–**	**70,000**
	28.3.2013	39.20	28.3.2014 – 27.3.2023	**153,000**	**–**	**(51,000)** *(Note h)*	**(17,000)**	**85,000**
	31.3.2014	33.75	31.3.2015 – 30.3.2024	**154,000**	**–**	**(108,000)** *(Note i)*	**–**	**46,000**
	31.3.2015	34.00	31.3.2016 – 30.3.2025	**204,667**	**–**	**(138,333)** *(Note j)*	**(3,667)**	**62,667**
				1,777,335	**–**	**(434,001)**	**(20,667)**	**1,322,667**

37. SHARE-BASED PAYMENT TRANSACTIONS continued

(c) Movement of share options continued

Name	Date of grant	Exercise price HK$	Exercise period (Note a)	Balance as at 1.1.2018	Changes during the year: Granted	Changes during the year: Exercised	Changes during the year: Cancelled/ lapsed (Note b)	Balance as at 31.12.2018
New Scheme								
Executive Director								
Lee Irene Yun-Lien	9.3.2016	33.15	9.3.2017 – 8.3.2026	375,000	–	–	–	375,000
	23.2.2017	36.25	23.2.2018 – 22.2.2027	300,000	–	–	–	300,000
	1.3.2018	44.60 *(Note k)*	1.3.2019 – 29.2.2028	–	373,200	–	–	373,200
Eligible employees *(Note c)*	31.3.2016	33.05	31.3.2017 – 30.3.2026	377,668	–	(158,333) *(Note l)*	(45,335)	174,000
	31.3.2017	35.33	31.3.2018 – 30.3.2027	409,000	–	(84,666) *(Note m)*	(75,667)	248,667
	29.3.2018	41.50 *(Note n)*	29.3.2019 – 28.3.2028	–	583,000	–	(70,000)	513,000
				1,461,668	956,200	(242,999)	(191,002)	1,983,867
Exercisable at the end of the year								1,791,662

Notes:

(a) All options granted have a vesting period of 3 years in equal proportions starting from the 1st anniversary and become fully vested on the 3rd anniversary of the grant. In this table, "exercise period" begins with the 1st anniversary of the grant date.

(b) The options lapsed during the year upon resignations of certain eligible employees.

(c) Eligible employees are working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance.

(d) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$39.25.

(e) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$45.36.

(f) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$44.55.

(g) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$43.56.

(h) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$43.88.

(i) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$43.99.

(j) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$42.85.

(k) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 28 February 2018) was HK$45.35.

(l) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$42.52.

(m) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$42.33.

(n) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 28 March 2018) was HK$40.75.

In respect of the share options exercised during the year ended 31 December 2018, the weighted average share price at the dates of exercise was HK$42.55.

Apart from the above, the Company had not granted any share option under the Schemes to any other person as required to be disclosed under Rule 17.07 of the Listing Rules in 2018.

37. SHARE-BASED PAYMENT TRANSACTIONS continued

(c) Movement of share options continued

The following table discloses movements of the Company's share options held by the Director and eligible employees in prior year:

Name	Date of grant	Exercise price HK$	Exercise period *(Note a)*	Balance as at 1.1.2017	Changes during the year: Granted	Changes during the year: Exercised	Changes during the year: Cancelled/ lapsed *(Note b)*	Balance as at 31.12.2017
2005 Scheme								
Executive Director								
Lee Irene Yun-Lien	14.5.2012	33.50	14.5.2013 – 13.5.2022	87,000	–	–	–	87,000
	7.3.2013	39.92	7.3.2014 – 6.3.2023	265,000	–	–	–	265,000
	10.3.2014	32.84	10.3.2015 – 9.3.2024	325,000	–	–	–	325,000
	12.3.2015	36.27	12.3.2016 – 11.3.2025	300,000	–	–	–	300,000
Eligible employees *(Note c)*	31.3.2008	21.96	31.3.2009 – 30.3.2018	11,000	–	(11,000) *(Note d)*	–	–
	31.3.2009	13.30	31.3.2010 – 30.3.2019	128,000	–	(69,000) *(Note d)*	–	59,000
	31.3.2010	22.45	31.3.2011 – 30.3.2020	126,334	–	(56,000) *(Note d)*	–	70,334
	31.3.2011	32.00	31.3.2012 – 30.3.2021	125,000	–	(39,000) *(Note e)*	(32,000)	54,000
	30.3.2012	31.61	30.3.2013 – 29.3.2022	160,001	–	(47,667) *(Note f)*	(7,000)	105,334
	28.3.2013	39.20	28.3.2014 – 27.3.2023	276,000	–	–	(123,000)	153,000
	31.3.2014	33.75	31.3.2015 – 30.3.2024	338,000	–	(139,000) *(Note g)*	(45,000)	154,000
	31.3.2015	34.00	31.3.2016 – 30.3.2025	359,000	–	(60,267) *(Note h)*	(94,066)	204,667
				2,500,335	**–**	**(421,934)**	**(301,066)**	**1,777,335**

37. SHARE-BASED PAYMENT TRANSACTIONS continued

(c) Movement of share options continued

Name	Date of grant	Exercise price HK$	Exercise period *(Note a)*	Balance as at 1.1.2017	Changes during the year: Granted	Exercised	Cancelled/ lapsed *(Note b)*	Balance as at 31.12.2017
New Scheme								
Executive Director								
Lee Irene Yun-Lien	9.3.2016	33.15	9.3.2017 – 8.3.2026	375,000	–	–	–	375,000
	23.2.2017	36.25 *(Note i)*	23.2.2018 – 22.2.2027	–	300,000	–	–	300,000
Eligible employees *(Note c)*	31.3.2016	33.05	31.3.2017 – 30.3.2026	610,000	–	(74,598) *(Note j)*	(157,734)	377,668
	31.3.2017	35.33 *(Note k)*	31.3.2018 – 30.3.2027	–	427,000	–	(18,000)	409,000
				985,000	**727,000**	**(74,598)**	**(175,734)**	**1,461,668**
Exercisable at the end of the year								**1,824,992**

Notes:

(a) All options granted have a vesting period of 3 years in equal proportions starting from the 1st anniversary and become fully vested on the 3rd anniversary of the grant. In this table, "exercise period" begins with the 1st anniversary of the grant date.

(b) The options lapsed during the year upon resignations of certain eligible employees.

(c) Eligible employees are working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance.

(d) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$37.25.

(e) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$38.95.

(f) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$38.99.

(g) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$38.86.

(h) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$37.79.

(i) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 22 February 2017) was HK$36.00.

(j) The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised was HK$38.69.

(k) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 30 March 2017) was HK$35.00.

In respect of the share options exercised during the year ended 31 December 2017, the weighted average share price at the dates of exercise was HK$38.68.

Apart from the above, the Company had not granted any share option under the Schemes to any other persons as required to be disclosed under Rule 17.07 of the Listing Rules in 2017.

37. SHARE-BASED PAYMENT TRANSACTIONS continued

(d) Fair values of share options

The Group has applied HKFRS 2 to account for its share options granted. In accordance with HKFRS 2, fair value of share options granted to employees determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the Group's share options reserve. In the current year, the Group recognised the share option expenses of HK$4 million (2017: HK$4 million) in relation to share options granted by the Company, of which HK$2 million (2017: HK$2 million) related to the Director (see note 11), with a corresponding adjustment recognised in the Group's share options reserve.

The fair values of share options granted by the Company were determined by using Black-Scholes option pricing model (the "Model"). The Model is one of the commonly used models to estimate the fair value of an option. The variables and assumptions used in computing the fair value of the share options are based on the management's best estimate. The value of an option varies with different variables of a number of subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

The inputs into the Model were as follows:

Date of grant	**29.3.2018**	**1.3.2018**	31.3.2017	23.2.2017
Closing share price at the date of grant	**HK$41.500**	**HK$43.700**	HK$35.250	HK$36.250
Exercise price	**HK$41.500**	**HK$44.600**	HK$35.330	HK$36.250
Risk free rate *(Note a)*	**1.802%**	**1.741%**	1.331 %	1.488 %
Expected life of option *(Note b)*	**5 years**	**5 years**	5 years	5 years
Expected volatility *(Note c)*	**17.923%**	**17.534%**	19.133 %	20.238 %
Expected dividend per annum *(Note d)*	**HK$1.288**	**HK$1.288**	HK$1.204	HK$1.204
Estimated fair values per share option	**HK$4.900**	**HK$4.760**	HK$4.374	HK$4.958

Notes:

(a) Risk free rate: being the approximate yields of 5-year Exchange Fund Notes traded on the date of grant, matching the expected life of each option.

(b) Expected life of option: being the period of 5 years commencing on the date of grant, based on management's best estimates for the effects of non-transferability, exercise restriction and behavioural consideration.

(c) Expected volatility: being the appropriate historical volatility of closing prices of the shares of the Company over the past 5 years immediately before the date of grant.

(d) Expected dividend per annum: being the approximate average annual cash dividend over the past 5 financial years.

Financial Risk Management

For the year ended 31 December 2018

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include loans to associates, loans to a joint venture, fund investment, term notes, accounts and other receivables, time deposits, cash and cash equivalents, accounts payable, accruals, amounts due to non-controlling interests, borrowings and derivative financial instruments. Details of these financial instruments are disclosed in respective Notes to the Consolidated Financial Statements sections. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Credit risk and impairment assessment

The credit risk of the Group is primarily attributable to loans to associates, loans to a joint venture, accounts and other receivables, derivative financial instruments, term notes, time deposits and bank balances. The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

Loans to associates and a joint venture

The Group regularly monitors the business performance of the associates and joint venture. The Group's credit risks in these balances are mitigated through the value of the assets held by these entities and the power to participate or jointly control the relevant activities of these entities.

Accounts and other receivables

Credit checks on tenants are part of the normal leasing process and stringent monitoring procedures are in place to deal with overdue debts. In addition, the Group reviews the expected credit losses of each individual debt, after taking into consideration the deposits from tenants, at the end of each reporting period.

Derivative financial instruments, term notes, time deposits and bank balances

The Group only deals with financial institutions and invest in debt securities issued by issuers that have strong credit ratings to mitigate counterparty risk. In order to limit exposure to each financial institution and debt securities issuer, an exposure limit was set with each counterparty according to their external credit rating with regular review by management.

Credit exposure to financial institutions and debt securities issuers are monitored and reported regularly to the management. The exposure to each counterparty comprised (i) investment value of financial assets (including bank balances, time deposits and term notes); (ii) net positive value of derivative financial instruments and; (iii) potential exposures to derivatives which are based on the remaining term and the notional amount of the derivative financial instruments.

Other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk, the Group also expose to credit risk arising from the corporate financial guarantees which will cause a financial loss to the Group if the guarantee is called out. Details of the Group's credit risk maximum exposure are set out in note 36 of the Notes to the Consolidated Financial Statements section.

Other than concentration of credit risk on loans to associates and a joint venture, the Group does not have any other significant concentration of credit risk.

Since 1 January 2018, the Group reviewed and assessed the Group's existing financial assets and financial guarantee contract for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with HKFRS 9. For the purpose of internal credit risk management, the Group uses financial information (such as historical settlement records, past due records, deposits held or other credit enhancement) to assess whether credit risk has increased significantly since initial recognition. During the year ended 31 December 2018, there is no past due amount from loans to associates and loans to a joint venture.

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

(a) Credit risk and impairment assessment continued

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Accounts receivables	Other financial assets
Performing	The counterparty has a low credit risk of default and does not have any past-due amounts	Lifetime Expected Credit Losses ("ECL") – not credit-impaired	12-month ECL – not credit-impaired
Non-performing	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

The tables below detail the credit risk exposures of the Group's major financial assets and financial guarantee contracts, which are subject to ECL assessment:

As at 31 December 2018	Notes	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount HK$ million
Financial assets at amortised cost					
Loans to a joint venture	19	N/A	Performing	12-month ECL	1,066
Term notes	21	BBB	N/A	12-month ECL	9
		A or above	N/A	12-month ECL	218
Time deposits and bank balances	24	A or above	N/A	12-month ECL	2,817

In respect of the financial guarantee contract, the credit risk exposures of the Group is assessed under 12-month ECL and concluded that the loss given default of the counter party, a joint venture, is insignificant and accordingly, no allowance for credit loss is provided.

The following table show reconciliation of loss allowances that has been recognised for loans to a joint venture and term notes.

	Loss allowance for	
	Loans to a joint venture HK$ million	Term notes HK$ million
As at 1 January 2018	5	1
Impairment under ECL model	(1)	–
As at 31 December 2018	**4**	**1**

Loss allowance recognised for loans to a joint venture and term notes are measured at 12-month ECL, there is no transfer from 12-month ECL to Lifetime ECL during the year as there is no significant increase in credit risk for the financial assets at amortised cost.

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

(b) Liquidity risk

The Group closely monitors their liquidity requirements and the sufficiency of cash and available banking facilities so as to ensure that the payment obligations are met.

The following table details the remaining contractual maturity of the Group for their non-derivative financial liabilities based on the agreed repayment terms. Maturity of the Group's financial guarantee contract is presented separately. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group is required to pay. The table includes both interest and principal cash flows. The interest payments are computed using contractual rates or, if floating, based on the prevailing market rate at the end of the reporting period. For cash flows denominated in currency other than Hong Kong dollars ("HKD"), the prevailing foreign exchange rates at the end of the reporting period are used to convert the cash flows into HKD.

	Carrying amount HK$ million	Total contractual undiscounted cash flow HK$ million	Within 1 year or on demand HK$ million	More than 1 year but not exceeding 2 years HK$ million	More than 2 years but not exceeding 5 years HK$ million	More than 5 years HK$ million
As at 31 December 2018						
Non-derivative financial liabilities						
Accounts payable and accruals	**(873)**	**(873)**	**(873)**	**–**	**–**	**–**
Deposits from tenants	**(1,000)**	**(1,000)**	**(331)**	**(216)**	**(439)**	**(14)**
Amounts due to non-controlling interests	**(223)**	**(223)**	**(223)**	**–**	**–**	**–**
Unsecured bank loans	**(1,532)**	**(1,732)**	**(48)**	**(48)**	**(1,636)**	**–**
Unsecured fixed rate notes	**(4,790)**	**(5,569)**	**(472)**	**(731)**	**(3,651)**	**(715)**
	(8,418)	**(9,397)**	**(1,947)**	**(995)**	**(5,726)**	**(729)**
As at 31 December 2017						
Non-derivative financial liabilities						
Accounts payable and accruals	(736)	(736)	(736)	–	–	–
Deposits from tenants	(895)	(895)	(389)	(269)	(227)	(10)
Amounts due to non-controlling interests	(327)	(327)	(327)	–	–	–
Unsecured bank loans	(1,550)	(1,655)	(32)	(528)	(1,095)	–
Unsecured fixed rate notes	(4,635)	(5,507)	(322)	(461)	(1,509)	(3,215)
	(8,143)	(9,120)	(1,806)	(1,258)	(2,831)	(3,225)

Note:

In addition to the items as set out in the above liquidity risk table, the maximum amount the Group could be required to settle under a financial guarantee provided by the Group in respect of banking facilities granted to a joint venture is HK$3,000 million as at 31 December 2018 and 2017, if such amount is claimed by the counterparties to the guarantee at any time within the guaranteed period. Based on expectations at the end of the reporting period, the Directors of the Company consider that it is more likely than not that no amount will be payable by the Group under such financial guarantee arrangement.

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

(b) Liquidity risk continued

The following table details the Group's remaining contractual maturity for its derivative financial instruments. The table has been drawn up based on the undiscounted gross inflows (outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the prevailing market rate at the end of the reporting period. For cash flows denominated in currency other than HKD, the prevailing foreign exchange rates at the end of the reporting period are used to convert the cash flows into HKD.

	Carrying amount HK$ million	Total contractual undiscounted cash flow HK$ million	Within 1 year or on demand HK$ million	More than 1 year but not exceeding 2 years HK$ million	More than 2 years but not exceeding 5 years HK$ million	More than 5 years HK$ million
As at 31 December 2018						
Derivative settled gross						
Forward foreign exchange contracts	**–**					
Outflow		**(219)**	**(219)**	**–**	**–**	**–**
Inflow		**218**	**218**	**–**	**–**	**–**
Cross currency swap	**(26)**					
Outflow		**(2,687)**	**(85)**	**(85)**	**(2,517)**	**–**
Inflow		**2,720**	**82**	**82**	**2,556**	**–**
As at 31 December 2017						
Derivative settled gross						
Forward foreign exchange contracts	1					
Outflow		(548)	(329)	(219)	–	–
Inflow		547	329	218	–	–
Cross currency swap	(30)					
Outflow		(2,772)	(85)	(85)	(255)	(2,347)
Inflow		2,797	82	82	246	2,387

(c) Interest rate risk

The Group manages its interest rate exposure by assessing the potential impact on the Group's financial position arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed rates and floating rates and ensure that they are within an appropriate range. The Group is exposed to fair value interest rate risk in relation to fixed rate term notes (see note 21 of the Notes to Consolidated Financial Statements section).

As at 31 December 2018, about 24.5% (2017: 25.1%) of the Group's gross debts was effectively on a floating rate basis. The ratio could be adjusted according to views about changes in the interest rate trend going forward. In addition, the Group is exposed to cash flow interest rate risk as the interest income derived from time deposits and bank balances is subject to interest rate changes. Other than the concentration of interest rate risk related to the movements in Hong Kong Interbank Offered Rate, the Group has no significant concentration of interest rate risk.

Sensitivity analysis

The sensitivity analysis below has been determined assuming that the change in interest rates had occurred at the end of the reporting period and all other variables were held constant. Such change has been applied to non-derivative financial instruments that would have affected the profit or loss and equity. A change of +100 and -25 basis points ("bps") (2017: +100 and - 25 basis points) was applied to the HKD and US dollars ("USD") yield curves at the end of the reporting period. The applied change of bps represented management's assessment of the reasonably possible change in interest rates based on the current market conditions.

In management's opinion, the sensitivity analysis is unrepresentative of the interest rate risk as the year end exposure does not reflect the exposure during the year.

1. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

(c) Interest rate risk continued

Sensitivity analysis continued

	Increase (decrease) in profit or loss		Increase (decrease) in equity	
	bps increase HK$ million	bps decrease HK$ million	bps increase HK$ million	bps decrease HK$ million
As at 31 December 2018	**13**	**(3)**	**7**	**(2)**
As at 31 December 2017	11	(3)	(2)	4

(d) Currency risk

The Group aims to minimise its currency risk and does not speculate in currency movements for debt management. To cover foreign exchange exposures arising from debts, the Group's foreign currency denominated monetary liabilities must be hedged back to HKD unless the liabilities are naturally hedged by the underlying asset in the same foreign currency. In managing the Group's monetary assets, the Group limits the aggregate net foreign currency exposures to a certain threshold. Exposures exceeding that threshold will be hedged back to HKD. The majority of the Group's assets are located and all rental income and management fee income are derived in Hong Kong, and denominated in HKD. At the end of the reporting period, the Group has the following monetary assets and monetary liabilities denominated in USD. The Group's unsecured fixed rate notes are hedged by cross currency swap.

	2018		2017	
	US$ million	**Total equivalent to HK$ million**	US$ million	Total equivalent to HK$ million
Assets				
Cash	**–**	**3**	2	12
Time deposits	**21**	**161**	32	248
Term notes	**29**	**227**	94	737
Fund Investment	**38**	**294**	3	21
	88	**685**	131	1,018
Liabilities				
Unsecured fixed rate notes	**300**	**2,344**	300	2,338

Other than concentration of currency risk of the above items denominated in USD (2017: USD), the Group has no other significant currency risk.

The Group has entered into appropriate hedging instruments, mentioned in note 22 of the Notes to the Consolidated Financial Statements section, to hedge against part of the potential currency risk of the above items. The Group reviews the continuing effectiveness of hedging instruments at least at the end of the reporting period and until the hedging instrument expires or is terminated or the hedge no longer meets the criteria for hedge accounting.

Sensitivity analysis

The sensitivity analysis below has been determined assuming that a change in exchange rate had occurred at the end of the reporting period and all other variable were held constant. Such change has been applied to both derivative and non-derivative financial instruments that would have affected the profit or loss and equity. Change of 500 percentage in points ("pips") (2017: 500 pips) was applied to the HKD: USD (2017: HKD: USD) spot and forward rates at the end of the reporting period.

In management's opinion, the sensitivity analysis is unrepresentative of the currency risk as the year end exposure does not reflect the exposure during the year.

	Increase (decrease) in profit or loss		Increase (decrease) in equity	
	pips increase HK$ million	pips decrease HK$ million	pips increase HK$ million	pips decrease HK$ million
As at 31 December 2018				
USD	**3**	**(3)**	**1**	**(1)**
As at 31 December 2017				
USD	9	(9)	4	(4)

2. CATEGORIES OF FINANCIAL INSTRUMENTS

	2018 HK$ million	2017 HK$ million
Financial assets		
Fair value through profit or loss ("FVTPL")	**295**	22
Derivative instruments under hedge accounting	**–**	2
Amortised cost (including cash and cash equivalents)	**4,203**	4,448
	4,498	4,472
Financial liabilities		
Derivative instruments under hedge accounting	**26**	31
Amortised cost	**7,418**	7,248
	7,444	7,279

3. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO ENFORCEABLE MASTER NETTING ARRANGEMENTS OR SIMILAR AGREEMENTS

The Group has entered certain derivative transactions that are covered by the International Swaps and Derivatives Association Master Agreements ("ISDA Agreements") signed with various banks. These derivative instruments are not offset in the consolidated statement of financial position as the ISDA Agreements are in place with a right of set off only in the event of default, insolvency or bankruptcy so that the Group currently has no legally enforceable right to set off the recognised amounts. Other than derivatives transactions mentioned above, the Group has no other financial assets and financial liabilities which are offset in the Group's consolidated statement of financial statements or are subject to similar netting arrangements.

(a) Financial assets subject to enforceable master netting arrangements or similar agreements

	Gross amounts of recognised financial assets HK$ million	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position HK$ million	Net amounts of financial assets presented in the consolidated statement of financial position HK$ million
As at 31 December 2018			
Derivatives under hedge accounting	**–**	**–**	**–**
As at 31 December 2017			
Derivatives under hedge accounting	2	–	2

(b) Net financial assets subject to enforceable master netting arrangements or similar agreements, by counterparty

	Net amounts of financial assets presented in the consolidated statement of financial position HK$ million	Financial liabilities not set off in the consolidated statement of financial position HK$ million	Net amount HK$ million
As at 31 December 2018			
Counterparty B	**–**	**–**	**–**
Counterparty C	**–**	**–**	**–**
Total	**–**	**–**	**–**
As at 31 December 2017			
Counterparty B	1	–	1
Counterparty C	1	(1)	–
Total	2	(1)	1

3. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO ENFORCEABLE MASTER NETTING ARRANGEMENTS OR SIMILAR AGREEMENTS continued

(c) Financial liabilities subject to enforceable master netting arrangements or similar agreements

	Gross amounts of recognised financial liabilities HK$ million	Gross amounts of recognised financial assets set off in the consolidated statement of financial position HK$ million	Net amounts of financial liabilities presented in the consolidated statement of financial position HK$ million
As at 31 December 2018			
Derivatives under hedge accounting	**(26)**	**–**	**(26)**
As at 31 December 2017			
Derivatives under hedge accounting	(31)	–	(31)

(d) Net financial liabilities subject to enforceable master netting arrangements and similar agreements, by counterparty

	Net amounts of financial liabilities presented in the consolidated statement of financial position HK$ million	Financial assets not set off in the consolidated statement of financial position HK$ million	Net amount HK$ million
As at 31 December 2018			
Counterparty A	**(26)**	**–**	**(26)**
As at 31 December 2017			
Counterparty A	(30)	–	(30)
Counterparty C	(1)	1	–
Total	(31)	1	(30)

4. FAIR VALUE MEASUREMENT

(a) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The fair values of financial assets and financial liabilities measured at amortised cost are determined in accordance with generally accepted pricing models based on discounted cash flow methodology taking into account the market interest rate and credit risk of the counterparties and of the Group as appropriate.

The Directors of the Company consider that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the consolidated financial statements approximate their fair values, except for the carrying amount of HK$4,790 million (2017: HK$4,635 million) unsecured fixed rate notes as stated in note 27 of the Notes to the Consolidated Financial Statements section with fair value of HK$4,824 million (2017: HK$4,737 million).

The fair value of HK$2,348 million (2017: HK$2,391 million) of the unsecured fixed rate notes is categorised into Level 1 of the fair value hierarchy, in which the fair value was derived from quoted prices in an active market translated at the spot foreign exchange rate of the respective currency at year end.

The fair value of HK$2,476 million (2017: HK$2,346 million) of the unsecured fixed rate notes is categorised into Level 2 of the fair value hierarchy, in which the fair value was measured using discounted cash flow methodology based on observable yield curves of the respective currency taking into account the credit margin of the Group as appropriate.

4. FAIR VALUE MEASUREMENT continued

(b) Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis

The following table provides an analysis of financial instruments that are measured at fair value on a recurring basis, grouped into Levels 1 to 3 based on the degree to which the inputs to the fair value measurements are observable.

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets and liabilities.
- Level 2: fair value measurements are those derived from inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2018			
	Level 1 HK$ million	Level 2 HK$ million	Level 3 HK$ million	Total HK$ million
Financial assets				
Financial assets at FVTPL				
Unlisted club debenture	–	1	–	1
Fund investment	–	–	294	294
Total	–	1	294	295
Financial liabilities				
Derivatives under hedge accounting				
Cross currency swap	–	26	–	26

	2017			
	Level 1 HK$ million	Level 2 HK$ million	Level 3 HK$ million	Total HK$ million
Financial assets				
Derivatives under hedge accounting				
Forward foreign exchange contracts	–	2	–	2
Financial assets at FVTPL				
Unlisted club debenture	–	1	–	1
Fund investment	–	21	–	21
Total	–	24	–	24
Financial liabilities				
Derivatives under hedge accounting				
Forward foreign exchange contracts	–	1	–	1
Cross currency swap	–	30	–	30
Total	–	31	–	31

4. FAIR VALUE MEASUREMENT continued

(c) Reconciliation of Level 3 fair value measurement of financial asset

	Fund investment HK$ million
As at 1 January 2018	–
Transfer into Level 3	**162**
Addition	**149**
Losses recognised in profit or loss	**(17)**
As at 31 December 2018	**294**

In current year, fund investment at fair value through profit or loss was transferred from Level 2 to Level 3 upon commencement of property investments by the fund. Transfers into and out of levels of the fair value hierarchy are primarily attributable to observability of valuation input of the underlying assets and liabilities of the fund investment.

The unrealised fair value losses of approximately HK$17 million relating to fund investment at fair value through profits or loss is included in other gains and losses.

(d) Valuation techniques and inputs used in fair value measurements

Forward foreign exchange contracts and cross currency swap are measured using discounted cash flow methodology based on observable spot and forward exchange rates as well as the yield curves of the respective currencies taking into account the credit risk of the counterparties and of the Group as appropriate.

Fund investment is measured with reference to the fair value of underlying assets and liabilities held under the fund as at the end of the reporting period.

(e) Valuation process of Level 3 fair value measurements of financial assets

At the end of the reporting period, the management of the Group obtains from the fund manager the valuation techniques and inputs for Level 3 fair value measurements in relation to the fund investment and its underlying assets and liabilities. Where there is a material change in the fair value of the fund investment, the causes of the fluctuations will be reported to the Directors of the Company.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The Group monitors its capital structure on the basis of a net debt to equity ratio. For this purpose, the Group defines net debt as borrowings as shown in the consolidated statement of financial position less time deposits, cash and cash equivalents.

The management reviews the Group's net debt to equity ratio regularly and adjusts the ratio through the payment of dividends, the issue of new share or debt, the repurchase of shares and the redemption of existing debt.

The net debt to equity ratio at the year end was as follows:

	2018 HK$ million	2017 HK$ million
Unsecured bank loans	**1,532**	1,550
Unsecured fixed rate notes	**4,790**	4,635
Borrowings	**6,322**	6,185
Less: Time deposits	**(748)**	(628)
Cash and cash equivalents	**(2,069)**	(2,034)
Net debt	**3,505**	3,523
Equity attributable to owners of the Company	**74,431**	69,953
Net debt to equity	**4.7%**	5.0%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Five-Year Financial Summary

For the year ended 31 December

	2018 HK$ million *(Note)*	2017 HK$ million	2016 HK$ million	2015 HK$ million	2014 HK$ million
Results					
Turnover	**3,890**	3,548	3,535	3,430	3,224
Property expenses	**(523)**	(449)	(428)	(414)	(404)
Gross profit	**3,367**	3,099	3,107	3,016	2,820
Other income	**–**	261	–	–	–
Investment income	**78**	69	50	54	68
Other gains and losses	**(16)**	–	–	–	(2)
Administrative expenses	**(227)**	(247)	(219)	(234)	(214)
Finance costs	**(222)**	(158)	(178)	(204)	(228)
Change in fair value of investment properties	**3,532**	853	(1,187)	695	2,940
Share of results of associates	**288**	220	237	246	252
Profit before taxation	**6,800**	4,097	1,810	3,573	5,636
Taxation	**(481)**	(484)	(463)	(438)	(386)
Profit for the year	**6,319**	3,613	1,347	3,135	5,250
Non-controlling interests	**(286)**	23	(129)	(232)	(348)
Profit attributable to owners of the Company	**6,033**	3,636	1,218	2,903	4,902
Underlying profit for the year	**2,536**	2,491	2,369	2,283	2,163
Recurring underlying profit for the year	**2,536**	2,349	2,369	2,283	2,163
Dividends					
Dividends paid	**1,444**	1,411	1,394	1,330	1,255
Dividends proposed	**1,224**	1,161	1,139	1,122	1,064
Dividends per share (HK cents)	**144.00**	137.00	135.00	132.00	123.00
Earnings per share (HK$), based on:					
Profit for the year					
– basic	**5.77**	3.48	1.16	2.73	4.61
– diluted	**5.76**	3.48	1.16	2.73	4.61
Underlying profit for the year – basic	**2.42**	2.38	2.26	2.15	2.03
Recurring underlying profit for the year – basic	**2.42**	2.25	2.26	2.15	2.03
Performance indicators					
Net debt to equity	**4.7%**	5.0%	5.4%	3.0%	4.2%
Net interest coverage (times)	**18.1x**	17.1x	20.5x	19.5x	17.1x
Net asset value per share (HK$)	**71.12**	66.89	64.56	64.48	63.02
Net debt per share (HK$)	**3.35**	3.37	3.50	1.94	2.64
Year-end share price (HK$)	**37.25**	41.45	32.05	31.75	34.65

As at 31 December

	2018 HK$ million *(Note)*	2017 HK$ million	2016 HK$ million	2015 HK$ million	2014 HK$ million
Assets and liabilities					
Investment properties	**77,442**	72,470	69,633	69,810	68,735
Investments in associates	**3,708**	3,779	3,497	3,683	4,154
Loans to associates	**11**	10	–	–	–
Investment in a joint venture	**145**	147	145	–	–
Loans to a joint venture	**1,062**	982	1,891	–	–
Fund investment	**294**	21	–	–	–
Time deposits, cash and cash equivalents	**2,817**	2,662	2,630	2,804	3,640
Other assets	**1,564**	2,049	2,225	2,491	2,494
Total assets	**87,043**	82,120	80,021	78,788	79,023
Borrowings	**(6,322)**	(6,185)	(6,293)	(4,859)	(6,447)
Taxation	**(962)**	(945)	(863)	(803)	(732)
Other liabilities	**(2,122)**	(1,989)	(2,180)	(1,758)	(1,715)
Total liabilities	**(9,406)**	(9,119)	(9,336)	(7,420)	(8,894)
Net assets	**77,637**	73,001	70,685	71,368	70,129
Non-controlling interests	**(3,206)**	(3,048)	(3,195)	(3,196)	(3,089)
Shareholders' funds	**74,431**	69,953	67,490	68,172	67,040

Definitions:

(1) Underlying profit for the year: profit adjusted for group's share of unrealised fair value changes on investment properties

(2) Recurring underlying profit for the year: underlying profit adjusted for items that are non-recurring in nature

(3) Net debt to equity: borrowings less time deposits, cash and cash equivalents divided by shareholders' funds

(4) Net interest coverage: gross profit less administrative expenses before depreciation divided by net interest expenses

(5) Net asset value per share: shareholders' funds divided by number of issued shares at year end

(6) Net debt per share: borrowings less time deposits, cash and cash equivalents divided by number of issued shares at year end

Note:

In the current year, the Group has applied the remaining sections of HKFRS 9 (see note 2 of the Notes to the Consolidated Financial Statements section for the summary of the corresponding financial impact). Accordingly, certain comparative information for the years ended 31 December 2014, 2015, 2016 and 2017 may not be comparable to the year ended 31 December 2018 as such comparative information was prepared under HKAS 39. Accounting policies resulting from application of HKFRS 9 are disclosed in the "Significant Accounting Policies" Section.

Report of the Valuer

To the Board of Directors
Hysan Development Company Limited

Dear Sirs,

Annual Revaluation of Investment Properties as at 31 December 2018

In accordance with your appointment of Knight Frank Petty Limited to value the investment properties in Hong Kong owned by Hysan Development Company Limited and its subsidiaries, we are pleased to advise that the market value of the investment properties as at 31 December 2018 was in the approximate sum of Hong Kong Dollars Seventy-Seven Billion Four Hundred and Forty Two Million Only (ie HK$77,442 million).

The completed investment properties have been valued individually, on market value basis, on the basis of capitalisation of the net income with due allowance for the reversionary income potential but without allowances for any expenses or taxation which may be incurred in effecting a sale, and where appropriate, cross reference by sales comparables.

Yours faithfully
Knight Frank Petty Limited

Hong Kong, 20 February 2019

Schedule of Principal Properties

At 31 December 2018

INVESTMENT PROPERTIES

Address	Lot No.	Use	Category of the Lease	Percentage held by the Group
1. **Lee Garden One** 33 Hysan Avenue Causeway Bay Hong Kong	Sec. DD of I.L. 29, Sec. L of I.L. 457, Sec. MM of I.L. 29, the R.P. of Sec. L of I.L. 29, and the R.P. of I.L. 457	Commercial	Long lease	100 %
2. **Bamboo Grove** 74-86 Kennedy Road Mid-Levels Hong Kong	I. L. 8624	Residential	Medium term lease	100 %
3. **Lee Garden Two** 28 Yun Ping Road Causeway Bay Hong Kong	Sec. G of I.L. 29, Sec. A, O, F and H of I.L. 457, the R.P. of Sec. C, D, E and G of I.L. 457, Subsec. 1 of Sec. C, D, E and G of I.L. 457, Subsec. 2 of Sec. E of I.L. 457 and Subsec. 1, 2, 3 and the R.P. of Sec. C of I.L. 461	Commercial	Long lease	65.36 %
4. **Leighton Centre** 77 Leighton Road Causeway Bay Hong Kong	Sec. B, C and the R.P. of I.L. 1451	Commercial	Long lease	100 %
5. **Lee Theatre Plaza** 99 Percival Street Causeway Bay Hong Kong	I. L. 1452, the R.P. of I.L. 472 and 476	Commercial	Long lease	100 %
6. **Lee Garden Three** 1 Sunning Road Causeway Bay Hong Kong	The R.P. of Subsec. 1 of Sec. J of I.L. 29, Subsec. 2 of Sec. J of I.L. 29 and the R.P. of Sec. J of I.L. 29	Commercial	Long lease	100 %
7. **One Hysan Avenue** 1 Hysan Avenue Causeway Bay Hong Kong	The R.P. of Sec. GG of I.L. 29	Commercial	Long lease	100 %
8. **Lee Garden Five** 18 Hysan Avenue Causeway Bay Hong Kong	Sec. N of I.L. 457 and Sec. LL of I.L. 29	Commercial	Long lease	100 %
9. **Lee Garden Six** 111 Leighton Road Causeway Bay Hong Kong	Sec. KK of I.L. 29	Commercial	Long lease	100 %
10. **Hysan Place** 500 Hennessy Road Causeway Bay Hong Kong	Sec. FF of I.L. 29 and the R.P. of Marine Lot 365	Commercial	Long lease	100 %

Shareholding Analysis

SHARE CAPITAL

At 31 December 2018

	HK$	Number of Ordinary Shares
Issued and fully paid-up capital	7,718,190,846	1,046,501,891

There was one class of ordinary shares with equal voting rights.

DISTRIBUTION OF SHAREHOLDINGS

(At 31 December 2018, as per register of members of the Company)

Size of registered shareholdings	Number of shareholders	% of shareholders	Number of ordinary shares	% of the total no. of issued shares *(Note)*
5,000 or below	2,267	71.81	3,606,017	0.34
5,001 – 50,000	769	24.36	11,924,271	1.14
50,001 – 100,000	68	2.16	5,138,658	0.49
100,001 – 500,000	44	1.39	8,902,235	0.85
500,001 – 1,000,000	2	0.06	1,131,041	0.11
Above 1,000,000	7	0.22	1,015,799,669	97.07
Total	**3,157**	**100**	**1,046,501,891**	**100**

TYPES OF SHAREHOLDERS

(At 31 December 2018, as per register of members of the Company)

Type of shareholders	Number of ordinary shares held	% of the total no. of issued shares *(Note)*
Lee Hysan Company Limited	433,130,735	41.39
Other corporate shareholders	584,743,134	55.88
Individual shareholders	28,628,022	2.73
Total	**1,046,501,891**	**100**

LOCATION OF SHAREHOLDERS

(At 31 December 2018, as per register of members of the Company)

Location of shareholders	Number of ordinary shares held	% of the total no. of issued shares *(Note)*
Hong Kong	1,044,371,353	99.797
United States and Canada	1,898,751	0.181
United Kingdom	19,085	0.002
Others	212,702	0.020
Total	**1,046,501,891**	**100**

Note:

The percentage was compiled based on the total number of issued shares of the Company as at 31 December 2018 (i.e. 1,046,501,891 ordinary shares).

Shareholder Information

FINANCIAL CALENDAR

Full year results announced	21 February 2019
Ex-dividend date for second interim dividend	6 March 2019
Closure of register of members and record date for second interim dividend	8 March 2019
Dispatch of second interim dividend warrants	(on or about) 22 March 2019
Closure of register of members for Annual General Meeting	10 to 16 May 2019
Annual General Meeting	16 May 2019
2019 interim results to be announced	13 August 2019*

* subject to change

DIVIDEND

The Board declares the payment of a second interim dividend of HK117 cents per share. The second interim dividend will be payable in cash to shareholders on the register of members as at Friday, 8 March 2019.

The register of members will be closed on Friday, 8 March 2019, for the purpose of determining shareholders' entitlement to the second interim dividend, on which date no transfer of shares will be registered. In order to qualify for the second interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrar not later than 4:00 p.m. on Thursday, 7 March 2019.

Dividend warrants will be dispatched to shareholders on or about Friday, 22 March 2019.

The register of members will also be closed from Friday, 10 May 2019 to Thursday, 16 May 2019, both dates inclusive, for the purpose of determining shareholders' entitlement to attend and vote at the Annual General Meeting to be held on 16 May 2019, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrar not later than 4:00 p.m. on Thursday, 9 May 2019.

SHAREHOLDER SERVICES

For enquiries about share transfer and registration, please contact the Company's Registrar, Tricor Standard Limited:

Tricor Standard Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong
Telephone: (852) 2980 1333
Facsimile: (852) 2861 1465

Holders of the Company's ordinary shares should notify the Registrar promptly of any change of their address.

The Annual Report is printed in English and Chinese language and is available on our website at www.hysan.com.hk. Shareholders may at any time choose to receive the Annual Report in printed form in either the English or Chinese language or both or by electronic means. Shareholders who have chosen to receive the Annual Report using electronic means and who for any reason have difficulty in receiving or gaining access to the Annual Report will promptly upon request be sent a printed copy free of charge.

Shareholders may at any time change their choice of the language or means of receipt of the Annual Report by notice in writing to the Company's Registrar at the address above. The Change Request Form may be downloaded from the Company's website at www.hysan.com.hk.

INVESTOR RELATIONS

For enquiries relating to investor relations, please email to investor@hysan.com.hk or write to the Company at:

Investor Relations
Hysan Development Company Limited
49/F. (Reception: 50/F.), Lee Garden One
33 Hysan Avenue
Hong Kong
Telephone: (852) 2895 5777
Facsimile: (852) 2577 5153

Corporate Information

BOARD OF DIRECTORS
Lee Irene Yun-Lien *(Chairman)*
Churchouse Frederick Peter**
Fan Yan Hok Philip**
Lau Lawrence Juen-Yee**
Poon Chung Yin Joseph**
Wong Ching Ying Belinda**
Jebsen Hans Michael B.B.S.*
(Yang Chi Hsin Trevor as his alternate)
Lee Anthony Hsien Pin*
(Lee Irene Yun-Lien as his alternate)
Lee Chien*
Lee Tze Hau Michael *

AUDIT AND RISK MANAGEMENT COMMITTEE
Poon Chung Yin Joseph** *(Chairman)*
Churchouse Frederick Peter**
Fan Yan Hok Philip**
Lee Anthony Hsien Pin*

REMUNERATION COMMITTEE
Fan Yan Hok Philip** *(Chairman)*
Poon Chung Yin Joseph**
Lee Tze Hau Michael*

NOMINATION COMMITTEE
Lee Irene Yun-Lien *(Chairman)*
Fan Yan Hok Philip**
Lau Lawrence Juen-Yee**
Poon Chung Yin Joseph**
Lee Chien*

* Non-Executive Director
** Independent Non-Executive Director

COMPANY SECRETARY
Cheung Ka Ki Maggie

REGISTERED OFFICE
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Lee Garden One
33 Hysan Avenue
Hong Kong

OUR WEBSITE
Press releases and other information of the Group can be found at our website: www.hysan.com.hk.

SHARE LISTING
Hysan's shares are listed on The Stock Exchange of Hong Kong Limited. It has a sponsored American Depositary Receipts (ADR) Programme in the New York market.

STOCK CODE
The Stock Exchange of Hong Kong Limited: 00014
Bloomberg: 14HK
Reuters: 0014.HK
Ticker Symbol for ADR Code: HYSNY
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